

NARENDRA MODI
FOREIGN INVESTORS'
VIEW p44

ASSET ALLOCATION SURVEY
FUND MANAGERS
TURN BULLISH p90

CASE STUDY
THE ENDURING
APPEAL OF
HORLICKS
p84

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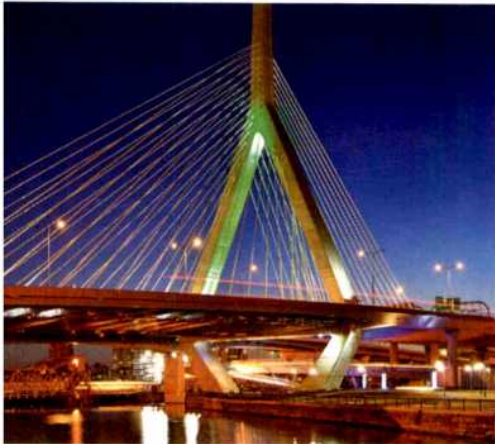
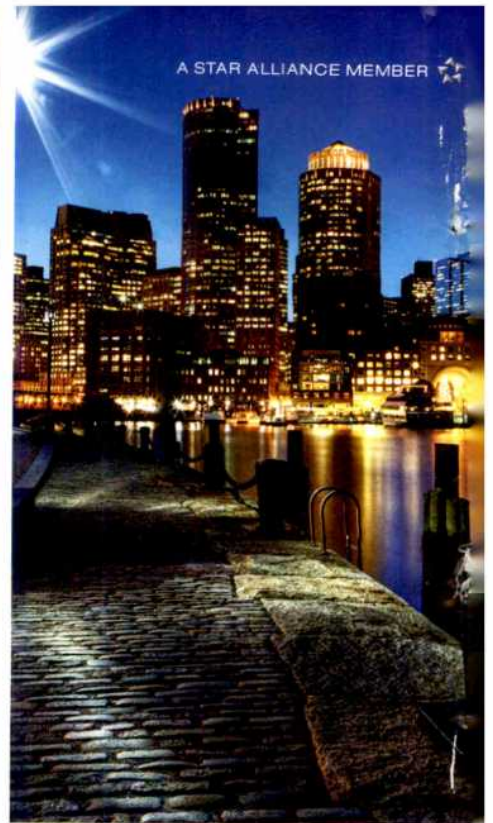
Marten Pieters,
MD and CEO,
Vodafone India

AME OF HRONES

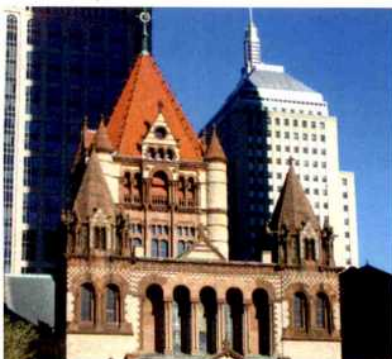
L OWNERSHIP OF INDIA UNIT,
ECTRUM IN THE BAG,
3 BN ARSENAL
VODAFONE GUNS FOR GLORY p54



9 770974 365002



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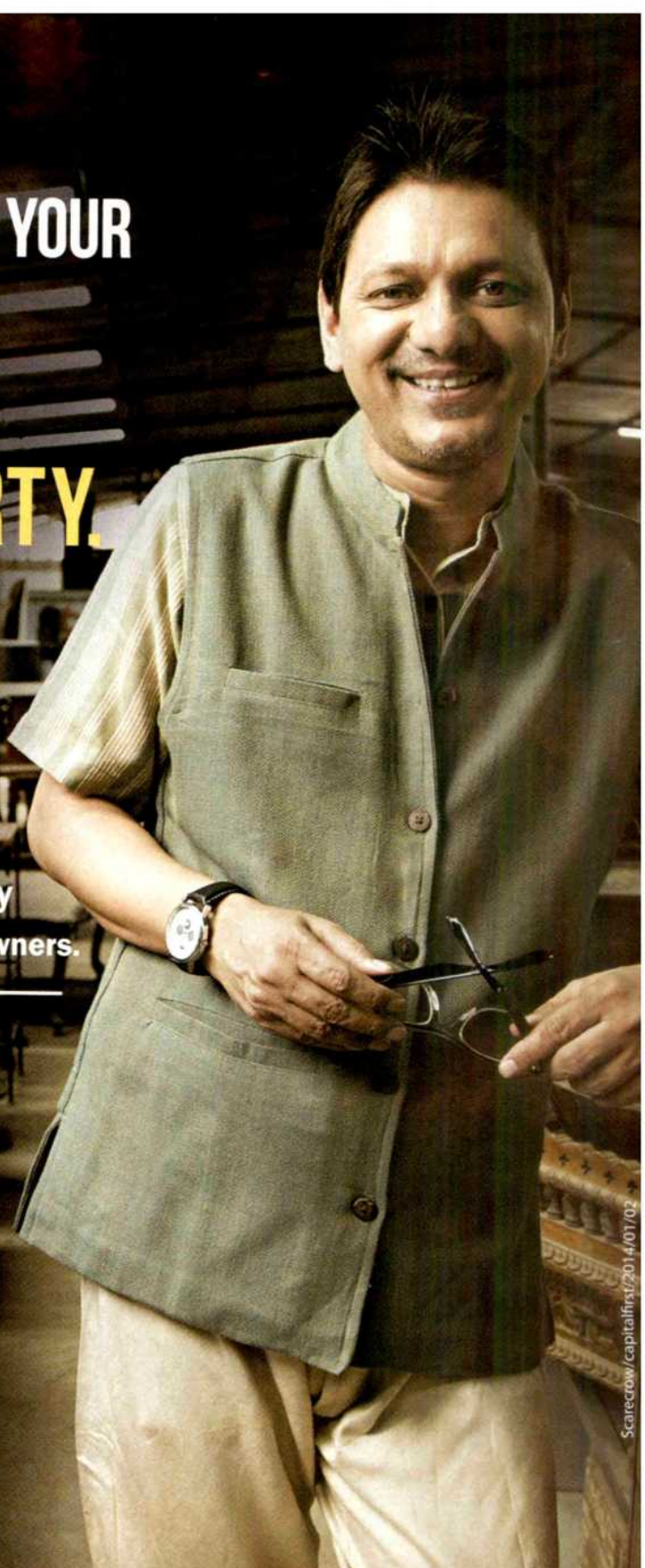
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Eye-opener

Full credit goes to *Business Today* for very clearly bringing out the role played by black money in the election process of the biggest democracy of the world (*Economy vs Democracy*, April 27) and exactly it is employed. Some 25 years ago, when I was a management student, an elderly person observed at a conference: "What good is economic development

when the amount of black money in India is a mammoth ₹500 crore." Today, that figure may seem to be ludicrously small, with the parallel economy keeping pace with economic growth of our country. In fact, some of the statistics mentioned in your feature were eye-opening. It is true that black or white – it is the money that makes the economy go.

Shankar Sahay, New Delhi

Money Power

Your Election Special article, *Economy vs Democracy*, has brought into focus the problems, procedures, and practices that go on and confront our elections. It could also have been called "development vs democracy". It has elaborated very well how money power works, raising many queries. Can the big corporate houses buy up a major political player to do their bidding? Will that change the country's direction to a new form of development? But whichever party or coalition forms the

government, it will have to "reboot the economy".

Jacob Sahayam, Thiruvananthapuram

Best Decision

The best thing about UPA-II government was the appointment of Raghuram Rajan as the new Governor of RBI (*Bracing for Challenges*, April 27).

Unquestionably, Rajan is the best person to head the RBI, when globally all major economies are passing through a turbulent time and the Indian economy is obviously no exception. The clarity with which he executes his strategies for achieving his goals is simply amazing. With Rajan at the helm on Mumbai's Mint Street, the Indian banks and economy can definitely bounce back within a few years from now. There are already sufficient indications of this available in terms of the rupee appreciating after a steep fall and a surge in forex reserves.

Srinivasan Umashankar, Nagpur

Send all your comments to: editor.bt@intoday.com

Ifs and Buts

One hopes the optimism exuded by *Business Today* in its Election Special (April 27) continues after the poll results are out. However, there are a few ifs and buts. Food inflation is the greatest worry at the moment. In 2013/14, we had excess rains and it is said there can be an El Nino effect this year. The government has to clear up the coal block allotment scam, so that enough coal is available for power generation and steel production. Fixing the gas price has to be done fast. And, it is time one looks closely at what the MNREGA has achieved (*Labour in Vain*, April 27). No one has told us what types of assets we have acquired through MNREGA, how many rural roads have been constructed or repaired, how many tanks and canals have been repaired or constructed. Again, what steps have been taken to maintain them? No doubt Keynesian economics is good, but we are not in a position to dig a pit and close it throwing away good money. – **G. Venkataraman**, Mumbai

G. Venkataraman wins gift vouchers of ₹1,000 for the best letter of this fortnight



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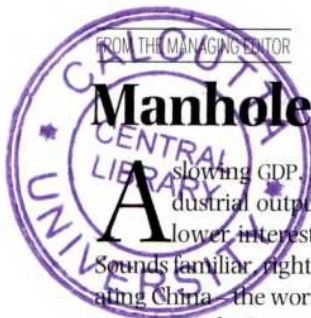
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P 34,543

Manhole Ahead, Mr PM Sir

A slowing GDP. Inflation on the uptick. Contracting exports. Sluggish industrial output. An appreciating currency. Calls for monetary easing, lower interest rates, and a government-led stimulus getting louder. Sounds familiar, right? Just that it is China that we are talking about. A decelerating China – the world's No. 2 economy grew at its slowest, 7.4 per cent, in six quarters in the January-March months – is not good news for a world still dealing with the long tail of the 2008 financial meltdown and subsequent recession in parts of the western world. That Beijing is trying to ease the economy into "a balanced and sustainable growth path", as the International Monetary Fund (IMF) noted in its World Economic Outlook earlier in April, is of little cheer to analysts and economists. The question is whether China will be able to keep its growth high enough to prevent its internal debt situation – private debt in a nation traditionally of savers is at nearly two times GDP; in India it is more like one-eighth – from dragging it down. And, now a new risk is emerging on the horizon: China's exports, about one-fourth of that country's \$9.4 trillion GDP, have suddenly plummeted. To be sure, some of it is due to the appreciating renminbi but exporters there – as well as in India (see page 28) – are talking about softening demand in export markets.



Odd, as it stacks up against the IMF's prediction of stronger global growth this year from the last, which is expected to be led by the US's 2.75 per cent. There may be a clue in a seldom-watched leading economic indicator. The Baltic Dry Index, built from the cost to move freight such as coal, grain, and iron ore across oceans, has shed nearly 60 per cent since its end-year holiday season peak in December 2013. Futures on the index are down, too – indicating the outlook for global trade is not in the positive territory. Obviously, it's not a clear shot from where we sit, but the Indian economy looks

more vulnerable in the coming months and quarters than is made out to be. A bad monsoon, as private meteorological agency Skymet predicted recently, in a world of slowing global demand, for instance, can lead to all kinds of things like a fisc out of control and a ratings downgrade – a nasty surprise for the next Indian prime minister.

Yet, as the general elections roll on, the markets continue to be the punter's delight. In the latest edition of the *BT* Morningstar Survey of fund houses, nine of 10 respondents expect GDP growth to rise to between five and six per cent in a year's time from a sub-five per cent expected for fiscal year 2014. They predict that the rupee will strengthen, Sensex will trade between 23,000 and 25,000, and foreign inflows will rise. An overwhelming majority predict a National Democratic Alliance government and in the event of a fractured mandate, they predict the markets will fall 15 per cent at least. (Read Mahesh Nayak's story on page 90.) Key to that outcome is how Uttar Pradesh votes. Shweta Punj travelled to the state with a simple question: what holds back a state that sends 80 of the 543 elected members of the Lok Sabha? Read her answer on page 48. The big and meaty read for you this issue, of course, is on the cover. In the high-decibel, with-the-herd world we live in, we often miss subtle movement even if it is big. In the ₹250,000-crore telecom services market, Bharti Airtel and challenger-in-waiting Reliance Jio are seen as the two big players to watch out for. The change at Vodafone, India's largest wholly-owned MNC unit with revenues of ₹37,130 crore, and how it has slowly glided into a strong position has not been noticed. Until now. Read Sunny Sen's well-chiselled story on page 54 on why Vodafone is the telecom operator to watch out for.

Josey Puliyenthuruthel

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Vol. 23, No. 9, for the fortnight April 28-May 11, 2014.
Released on April 28, 2014.

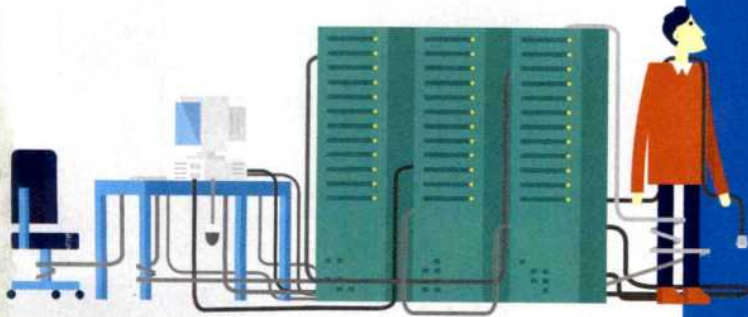
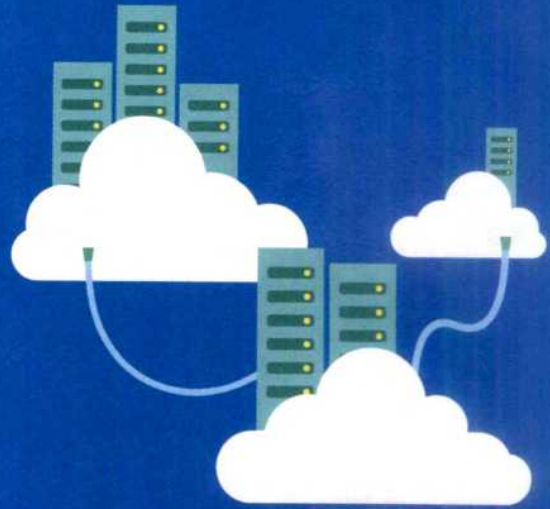
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CONTENTS

COVER BY ANAND SINHA
COVER PHOTOGRAPH BY RACHIT GOSWAMI

MAY/11/2014
VOLUME 23/NUMBER 9

54

COVER STORY

GUNS AND ROSES

Marten Pieters overcame the trauma of terrorist attack to steer Vodafone India into profits. Now he seeks glory in data with a \$3-billion gambit

Deserving the Honour

How do Bandhan Financial Services and IDFC measure up to the challenges of operating as full-fledged banks?

64



UPFRONT

12 | Quick takes on major events



FOCUS

16 | Finding a Cure

Ranbaxy is Sun Pharma's 17th acquisition in India, and by far its biggest to date. What will it take for Sun's founder, Dilip Shanghvi, to turn the troubled major around?

22 | In the Crosshairs

Why the future of FDI in multibrand retail looks bleak after the polls

26 | Less Is More

Why private-equity firms chased fewer deals but invested more money in India during 2013

28 | Flip Side of the Coin

The rupee's comeback is great for the economy. But not for exporters

32 | Smart Move

Why venture funds are rushing to back INEDA, maker of chips for wearable

36 | Graphiti: Rural Rocks



FEATURE

42 | Going to Extremes

Mukund Mohan, whom Microsoft recently relocated from Bangalore to Redmond to build Microsoft Ventures in the US, is a dream mentor for entrepreneurs

44 | Falling in Line

Global investors gear up to working with Narendra Modi despite reservations about his secular credentials

48 | Underperformer

Why UP, India's most politically significant state, fares poorly on socio-economic indicators

72 | Trying on New Hats

With Naukri.com, Info Edge made a dream debut on the stock market. But with the downturn, Sanjeev Bikhchandani and Hitesh Oberoi are betting on other ventures



76 | The Unique Fragrance of Darshan Patel

His products are different, as is his no-holds-barred marketing style

80 | The Greening of the House of Tatas

How a dedicated team converted a 90-year-old heritage structure into a benchmark for environment-friendly buildings

84 | Strong, Stronger, Strongest

The case study looks at how Horlicks has avoided getting dated

90 | Waitin' on a Sunny Day

Fund managers have turned bullish with economic indicators improving, finds the fifth edition of the BT-Morningstar Asset Allocation Survey



94

MONEY

94 | Too Good to Be True?

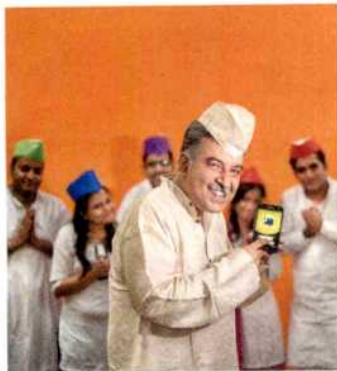
Developers are offering lucrative buyback schemes. But such promises may not be always kept

98

LBNL

98 | Appy Voting

Mobile and online apps, seeking to inform or influence voters, have been more active than ever before in this election



102 | Graduating with More Than Honours

Top companies are going beyond B-schools to recruit graduates from leading colleges

BOOKEND

105 | A Samurai from Chandigarh

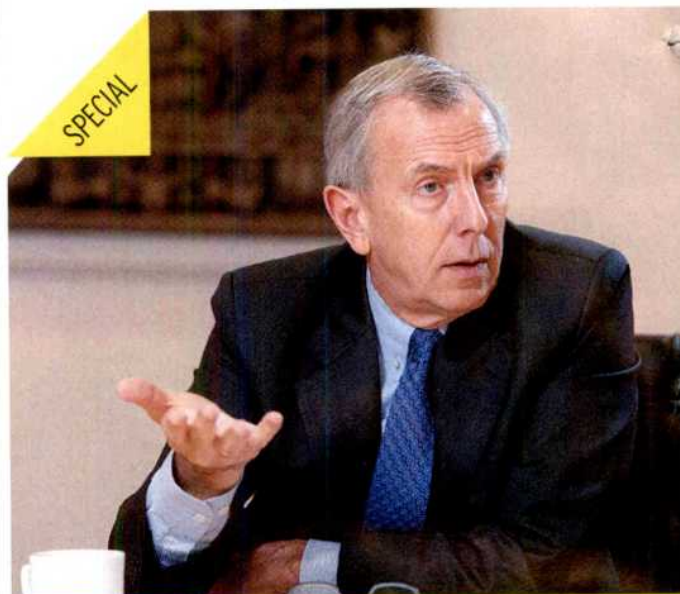
110 | PEOPLEBUSINESS

LEADERSPEAK

114 | Vikram Limaye

MD & CEO, IDFC Ltd

114



SPECIAL

Drive for Data

Vodafone believes data rather than voice calls will drive future growth and is working hard to strengthen its infrastructure in this sphere.

All this and more at businesstoday.in/vodafone-data

NEWS



PSU's Digital Push

Even staid public sector units are promoting themselves actively on social media.

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Western Inspiration

Indian retail chains are adopting the same techniques as global ones.

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Richest British Asians

The Asian Rich list in Britain this year shows the Hinduja brothers ahead of steel tycoon Lakshmi Mittal.

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End to Crony Auditing
Tina Edwin starts a series explaining what is new in the new Companies Act.

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Style Matters
Friction with the boss is often a matter of contrasting styles, says Suresh Rajagopal.

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The Inner Game of Success
Succeeding at any enterprise requires overcoming inner constraints as well, says Santhosh Babu.

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Beyond Volatility
Hemant Rustagi ticks off the factors to be taken into account to get the best returns from mutual fund investments.

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WEB EXCLUSIVES



Croma Is Cool

In a short span, this Tata Group retail arm has begun to rival the big boys.

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Acquiring a New Shade

The 112-year-old Shalimar Paints wants to become a more consumer-oriented brand.

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DEEP DIVE

Falling Short

BITS Pilani professors, A.K. Sarkar (pic) and S.K. Chowdhury on why many engineering graduates find it difficult to land jobs.

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PERSPECTIVE

Winding up MediaPro

Ajita Shashidhar explains why the Star-Zee joint venture in distribution is being disbanded.

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INTERVIEWS



"Graduates today are doing much more than what previous batches did"

Shalini Pillay, Head of People, Performance and Culture (PPC) at KPMG, talks to Arunima Mishra.

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"India stands out among emerging markets"

Markus Schomer, Chief Economic Strategist at PineBridge Investments, speaks to Mahesh Nayak.

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"Indian companies will have to elevate their status from low-cost producers to innovative businesses"

Anurag Gupta, Partner, Accenture India, in conversation with Sarika Malhotra.

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BLOGS

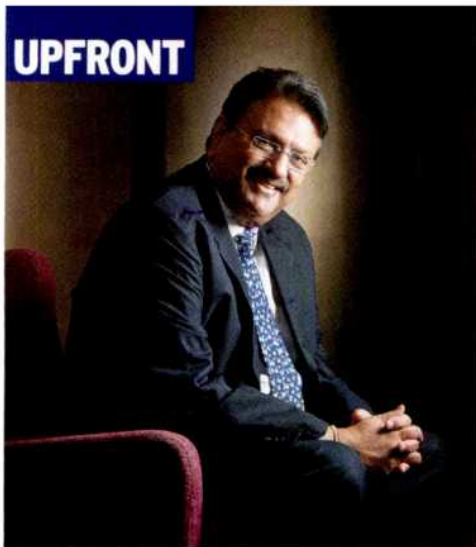


Startup Today

Taslima Khan on how Indian chat applications are coping with their new challenges.

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UPFRONT



PERSON OF THE FORTNIGHT

It is deal season for **Ajay Piramal**, whose Piramal Enterprises agreed to buy a 20 per cent stake in the unlisted Shriram Capital for \$334 million, strengthening its presence in financial services. Days earlier, he raked in ₹3,000 crore – a 51.7 per cent return on investment over two years – by selling his 10.97 per cent stake in Vodafone for ₹8,900 crore. Sensex stocks over the same period would have yielded a return of 24 per cent.

CHANGING TIMES

“Unusual times call for unusual measures.”

Deepak Parekh, Chairman, HDFC, in a column in *The Times of India* that conveyed his support to Narendra Modi and the BJP's manifesto.

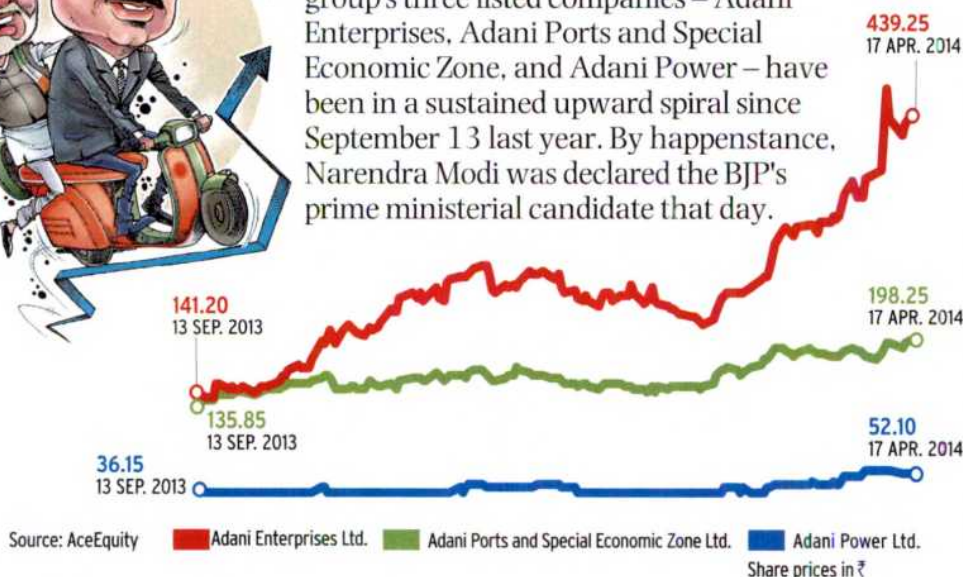


OPEN SESAME

Very few companies in the world would be making a \$1.4 billion profit in a single quarter on revenues of \$3.1 billion. Now we know that one of them is Chinese: **Alibaba**, which dominates online shopping in China. The revelations come thanks to Yahoo, the United States-based internet giant, which owns 24 per cent of Alibaba. As *The New York Times* says, Yahoo has provided, from time to time, the only peeks into Alibaba's finances. That is about to change, now that the Chinese company's initial public offering is on the anvil. The share sale is likely to value it at \$130 billion. The figure has grown 52 times since Yahoo first bought into it nine years ago. No wonder it has been the brightest spot in Yahoo's performance.

TAKING STOCK

Is the market falling in love with Adani? It may have a good reason. The group's three listed companies – Adani Enterprises, Adani Ports and Special Economic Zone, and Adani Power – have been in a sustained upward spiral since September 13 last year. By happenstance, Narendra Modi was declared the BJP's prime ministerial candidate that day.



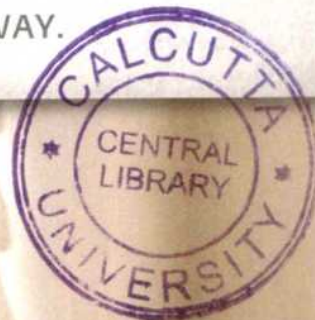
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Rent owed every month by AAP's Arvind Kejriwal to the Delhi government for his Central Delhi accommodation. His IIT batchmates chipped in and paid the dues.

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News Digest



Former US Federal Reserve chairman Ben Bernanke has a message for the next government in India. Backing Reserve Bank of India Governor Raghuram Rajan, he said an independent and responsible central bank is central to the success of the Indian economy. However, he countered Rajan's critique of the spillover effect of US monetary policy, and his call for greater coordination between central banks and the creation of a "safety net".

More than which political party takes control after elections, it is the direction and pace of policy reforms in India that will have a bearing on the sovereign rating, Standard and Poor's rating agency has said.

The International Monetary Fund said it expects India's economic growth to move up to 5.5 per cent in 2014/15 and 6.25 per cent in 2015/16 due to favourable demographics.

Diageo Plc, the world's largest distiller, has offered to pay \$1.9 billion, at ₹3,030 a share, for an additional 26 per cent stake in United Spirits Ltd. If successful, Diageo will own 54.78 per cent of USL, up from 28.78 per cent. India's liquor market is poised for strong growth, including in beer, where volumes are expected to grow at a rate of 10 per cent in the five-year period that started in 2012.

India's largest IT exporter TCS reported fourth-quarter results that were broadly in line with expectations. The management sounded confident of a far better year ahead. The company's net profits expanded 2.3 per cent sequentially to ₹5,297 crore or ₹27.04 a share. In the fourth quarter, it became the first Indian IT company with more than 300,000 employees on its roll.

Lupin Pharmaceuticals has recalled 9,210 bottles of its infection prevention drug Suprax in the US market. The recall is the second for India's fourth-largest drugmaker by sales, and follows a recall of nearly 65,000 bottles from the US in January last year because of discoloration. The recent recalls, including from Ranbaxy Laboratories, Sun Pharmaceutical Industries and Dr. Reddy's Laboratories, come amid increased US Food and Drug Administration scrutiny of medicines produced in India, which supplies about 40 per cent of generic and over-the-counter drugs sold in the US.

The Supreme Court has ruled that the Comptroller and Auditor General is empowered to examine the accounts of private telcos. The judgement has far-reaching consequences, especially for Bharti Airtel, Reliance Communications, Vodafone and Idea Cellular.

Banks sold over ₹10,000 crore of bad loans to asset reconstruction companies in March alone. Banks have recast nearly a ₹1 trillion worth of loans in the past financial year.

Corporates and banks have hit the international debt market with renewed interest as domestic interest rates have stayed high. They have mopped up \$5.6 billion so far this year. Last year, India Inc raked in \$16 billion, up 60 per cent from 2012.

The Election Commission has asked the Central Board of Direct Taxes to cancel the income tax exemption given to political parties which have failed to meet the deadline for submitting their expenditure contribution reports. The EC has reported instances of parties failing to submit details of contributions of more than ₹20,000 received by them for the 2012/13 financial year. The deadline for submitting these details was September 2013.

No-frills airlines SpiceJet and IndiGo have merged fuel surcharge with the base fares to simplify fare structure.

Celebrities are taking the Indian football by storm. Sachin Tendulkar (Kochi franchise), Sourav Ganguly (Kolkata), Salman Khan (Pune), John Abraham (Guwahati) and Ranbir Kapoor (Mumbai) all won bids for the Indian Super League, to be held later this year.

Bangalore-born Vijay Seshadri has won the 2014 Pulitzer Prize for poetry. Other recent Indian winners include Jhumpa Lahiri, Geeta Anand and Siddhartha Mukherjee.

Microsoft is the most attractive employer for the fourth year in a row in India. IT, telecom and ITes are the sectors most preferred by the workforce, according to HR services firm Randstad.

China's expansion moderated to its weakest pace in six quarters. Gross domestic product rose 7.4 per cent in the January-to-March period from a year earlier in the world's second-largest economy. Industrial output and fixed-asset investment trailed projections.

Wholesale Price Index-based inflation rebounded from a nine-month low of 4.68 per cent in February to 5.7 per cent in March. Inflation for fuel and power galloped to six-month high of 11.2 per cent in March from 8.8 per cent in February, while inflation for manufactured products rose to 3.2 per cent in March 2014.

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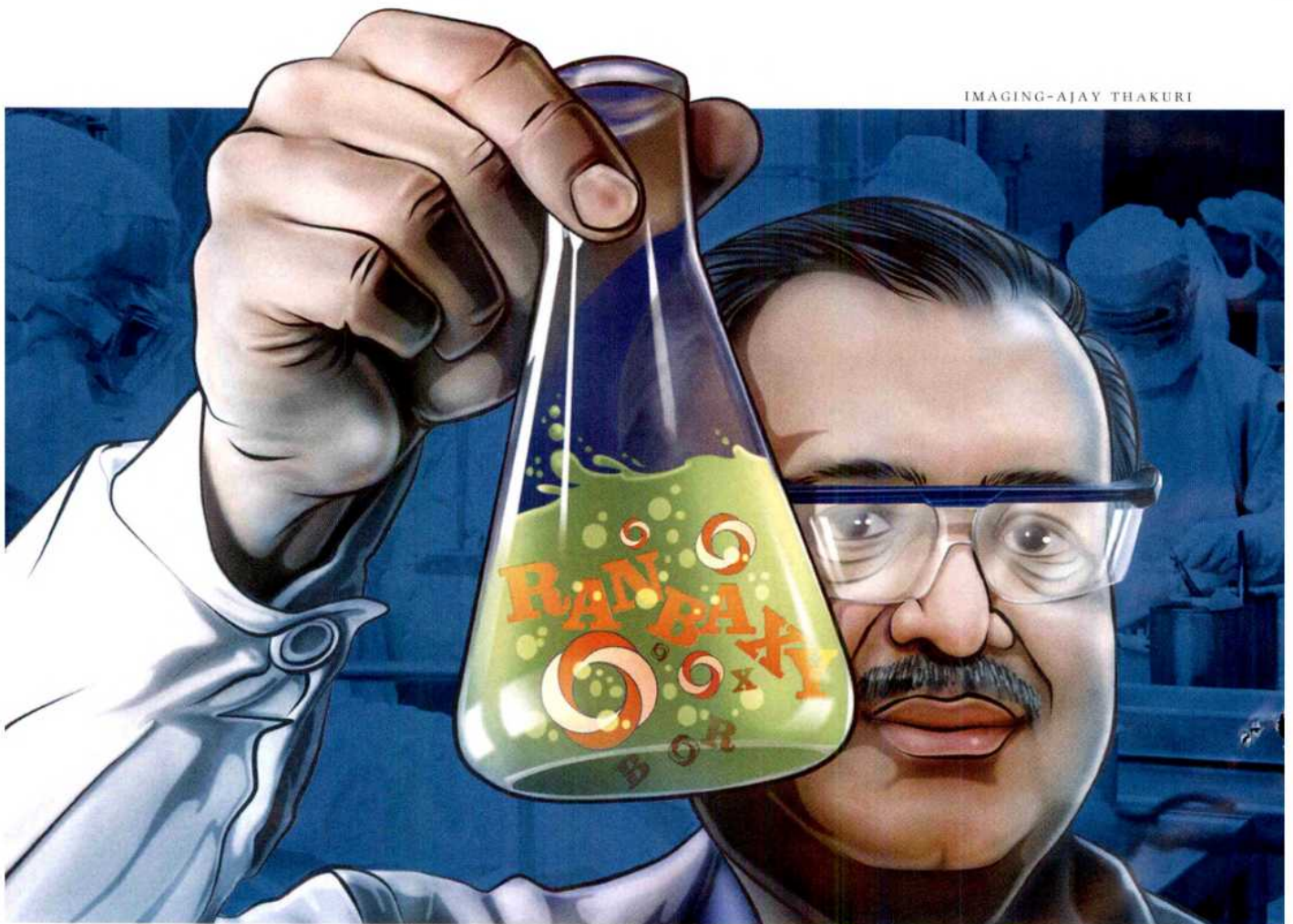
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FOCUS

22 FDI in Retail
26 Private Equity: Less is More
28 Rupee Hurts Exporters



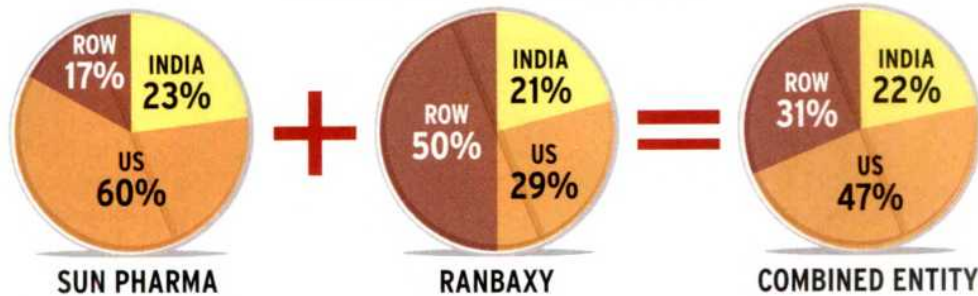
Finding a Cure

Ranbaxy is Sun Pharma's 17th acquisition, and by far its biggest to date. What will it take for Sun's founder, Dilip Shanghvi, to turn the troubled major around? By E. Kumar Sharma



Balanced Global Footprint

Pro forma sales for calendar 2013: \$4.3 bn



Note: ROW = Rest of the world

Source: Sun Pharma

In the wee hours of April 7, news broke that Sun Pharmaceutical Industries Ltd would acquire Ranbaxy Laboratories Ltd for \$3.2 billion, or roughly ₹19,286 crore (the deal size is \$4 billion if you factor in Ranbaxy's \$800-million debt). The landmark deal makes Mumbai-based Sun Pharma not only the country's largest drug company, but also the world's fifth largest speciality generic drug maker with revenues of \$4.3 billion. That is just half way, in terms of size, to the global generics leader Teva, the role model of generics companies worldwide.

What set this all-stock, no-cash deal apart, at least financially, was this equation: Japanese pharma giant Daiichi Sankyo's 63.4 per cent stake in Ranbaxy was equated with a nine per cent stake in Sun. In 2008, Daiichi Sankyo took a big bet in generics when it bought into Ranbaxy, based in Gurgaon, near Delhi. Ranbaxy's market cap today is \$3.2 billion. The deal has made Daiichi Sankyo the second largest shareholder in Sun.

The man of the moment is Sun's founder, 59-year-old Dilip Shanghvi. The commerce graduate embarked on his entrepreneurial journey in 1983 with a small factory in Vapi, Gujarat, to make tablets and capsules, aided by a marketing team of just two people.

To acquire Ranbaxy, instead of paying cash he leveraged Sun Pharma's market capitalisation. G.V. Prasad, Chairman and CEO of rival drug maker Dr Reddy's Labs, describes it as "a smart move", and adds that Sun Pharma now has a good presence not only in India but also in emerging market. He notes that "Ranbaxy is a low-cost acquisition, as its peak market cap was much higher" than it is now. He adds: "Sun has the ability to acquire distressed assets and turn them

around," he says. "They have done this with Taro and Caraco."

Sun acquired Israeli company Taro Pharmaceutical Industries for around \$250 million in 2010. It gradually increased its stake up to 100 per cent in US-based Caraco Pharmaceutical Labs from 1997 to 2011, for a total value of around \$260 million.

In his April 7 conference call with analysts, just after the deal was announced, Sun's Shanghvi referred to his company's acquisitions since 1995/96, saying: "We acquired Taro in 2010, and from an EBITDA [earnings before interest, tax, depreciation and amortisation] of less than \$100 million, we have in the last three years been able to reach an EBITDA of close to \$400 million... with almost no change and the same people... by running the business with a clear focus and running it efficiently."

But Ranbaxy will be no cakewalk. The value of the latest deal is more than all of Sun's 16 previous deals put together, and Ranbaxy's problems are serious. Daiichi Sankyo, which coughed up \$4.6 billion for its stake in Ranbaxy in 2008, announced in January 2009 that it was making a \$3.8-billion write-down. It was to record a valuation loss and a one-time write-down of goodwill on its investment in Ranbaxy for the quarter ended December 31, 2008. In a note on January 5, 2009, the Japanese company said: "On a non-consolidated basis,

Daiichi Sankyo plans to record a non-cash valuation loss of 359.5 billion yen [more than ₹21,210 crore today] on its shares in Ranbaxy in its fiscal third-quarter to reflect a more than 50 per cent decline in the market value of these securities versus the purchase price."

To make things worse, it was around this time that problems with the US Food and Drug Adminis-

7.3%

increase in Sun's share
 price 10 days after deal
 (₹624.30 on April 17)

tration (FDA) began. Ranbaxy was pulled up for several violations in good manufacturing practices. Its reputation took another severe hit on March 13, 2013, when the US Department of Justice announced that it had pleaded guilty and agreed to pay \$500 million to resolve allegations of false claims, manufacturing violations, and false statements to the FDA. The US authority has placed four of Ranbaxy's key plants in India under an import ban that could last another year or two. Its EBITDA margins are now around 10 per cent, in an industry where most players' margins are 15 to 25 per cent. Sun Pharma's own is 40 per cent. Of course, Sun itself faces regulatory challenges: in March, the FDA imposed a ban on imports from its plant in Karkhadi, Gujarat.

So Sun Pharma's challenge in the Ranbaxy deal is not just financial, but also one of regulatory compliance. Soon after the deal, Shanghvi said he acquired Ranbaxy because of the "overall business value" of the deal, rather than its "one-time costs" and losses incurred on hedging on the dollar. He says his decision was driven by the "underlying business in India and emerging markets, and its robust pipeline and profitability".

Research analysts Anubhav Aggarwal and Chunky Shah at Credit Suisse, in a report

WHAT THE DEAL MEANS FOR SUN AND RANBAXY

☞ It now has a presence in all therapeutic segments, thanks partly to Ranbaxy's over-the-counter brands such as Volini and Revital

☞ It is the top Indian drug company in the US, with revenues of more than \$2 bn, a pipeline of 184 ANDAs* (including first-to-files such as generic versions of Diovan, Nexium and Valcyte). It also has Ranbaxy's dermatology strengths

☞ All-stock deal does not use up cash on Sun's balance sheet, but instead leverages its market cap

☞ Sun will be in the top spot in 13 therapy segments in India, up from seven today

☞ Sun gets strong exposure in fast-growing markets such as Brazil, Malaysia, Russia, Romania and African countries

☞ Sun must raise Ranbaxy's EBITDA margins from 10%. The industry average is 15-25 per cent and Sun's margin is 40 per cent

*ANDA is Abbreviated New Drug Application, filed for US regulatory approval to launch a generic of an existing approved drug. The first generic drug maker to file for approval also gets 180 days of market exclusivity

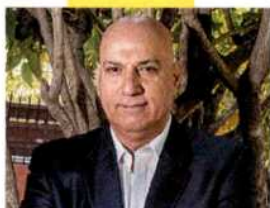
published soon after the acquisition, point out that positives include a better geographical presence for Sun, a better over-the-counter portfolio in India and other countries, and a dermatology franchise in India (55 per cent of Ranbaxy sales). However, they also highlight negatives that Sun must watch carefully, such as high exposure to Western Europe and the high dependence of Ranbaxy's profits on Absorica (an acne treatment licensed from Canada-based Cipher Pharmaceuticals, which Ranbaxy has been marketing since 2012 in the US). They say Ranbaxy's product could lose its edge to increased competition in generics from March 2016. They also note that Ranbaxy's sales growth, margins and returns are lower than those of Sun, and that Sun's pay-back period on Ranbaxy is likely to exceed six years. Therefore, they note, Sun would have to wait longer before making any other acquisitions.

Sanjiv Kaul, Managing Director at ChrysCapital Investment Advisors, who worked at Ranbaxy before 2004 and knows the company well, says the deal is in the best interest of all three companies – Sun, Ranbaxy and Daiichi. Ranbaxy, he says, is "finally, at long last, getting

direction and a strong leadership, which was missing for the last 10 years". Daiichi, he says, found the "face-saving exit" it was

"THE DEAL IS IN THE BEST INTEREST OF ALL THREE PARTIES - SUN, DAIICHI AND RANBAXY. FOR RANBAXY, IT IS FINALLY GETTING DIRECTION AND STRONG LEADERSHIP, WHICH WAS MISSING FOR THE LAST 10 YEARS"

Sanjiv Kaul,
Managing Director,
ChrysCapital Investment Advisors



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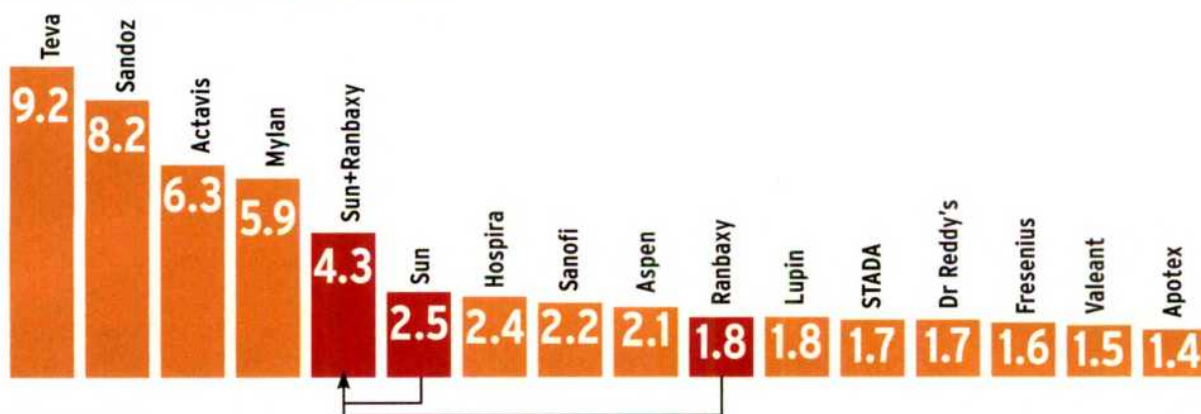


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Worldwide generics sales in 2013 (\$ billion)



Source: Sun Pharma

"SUN ENJOYS A VERY STRONG REPUTATIONAL CREDIBILITY AND IT GIVES THE HOPE THAT THEY CAN ACTUALLY START REBUILDING RANBAXY BRAND EQUITY"

Kiran Mazumdar-Shaw,
Chairman and Managing Director,
Biocon



looking for. And Sun Pharma, he says, "has bought a good asset at an attractive valuation... the very fact that they have bought the asset at virtually half of what Daiichi paid eight years ago shows the strength of the bargaining power and diligent eyes of Dilip Shanghvi".

So what can he do to salvage it? Conversations with analysts have underscored two broad concerns. One is how Sun will leverage Ranbaxy's pipeline of approved drugs (or those in the pipeline), given that a regulatory turnaround could take a couple of years.

And the second is how Sun, now a global company, will handle cultural issues. In his April 7 conference call with analysts, Shanghvi said that "global companies need to be able to manage different cultures and produce results... some basic human traits, which ultimately lead to performance are common [to all]... We have seen that everybody wants to be part of a successful team and is prepared to work hard to achieve that, if they are given proper direction, support and encouragement... this is no different with Ranbaxy".

But there are larger issues at stake in this deal. ChrysCapital's Kaul says: "Ranbaxy has seen individual creativity and entrepreneurial culture change to a systems orientation under Daiichi, with its people caught between the two today." This, he says, makes

it different from, say, Taro, where cultural differences were the result of geographical peculiarities (and which was also a much smaller acquisition).

Then, he says, there are "management competencies that Daiichi itself was not able to address...Sun, for instance, will need to rationalise manpower at Ranbaxy, as Ranbaxy needs affirmative leadership now." Some in the industry joke that the best integration would be possible if Shanghvi could bring Sun's operational efficiencies to Ranbaxy, and Ranbaxy's pay scales to Sun. On a more serious note, it is a matter of concern how Sun will achieve cultural integration with Ranbaxy when many in the company draw lower salaries than their Ranbaxy counterparts.

In her reaction to the deal, Kiran Mazumdar-Shaw, Chairman and Managing Director of Biocon, told *Business Today*: "It is an important development because it consolidates the pharma industry, and is a win-win for Daiichi and Sun. Sun enjoys a very strong reputational credibility and it gives the hope that they can actually start rebuilding Ranbaxy's brand equity." The key task ahead is clear, as Credit Suisse's Aggarwal and Shah point out: "Turnaround at Ranbaxy requires successful execution of a complementary portfolio." ♦

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In the Crosshairs

Why the future of FDI in multi-brand retail looks bleak after the polls. By MANU KAUSHIK



India next: A Tesco store in London



Policy uncertainty: A Walmart cash-and-carry store in India

SEVERAL STIPULATIONS IN THE EXISTING FDI POLICY ARE ACTING AS DETERRENTS FOR GLOBAL RETAILERS

In the first week of April, the Bharatiya Janata Party (BJP) released its election manifesto. The document confirmed the party's opposition to foreign direct investment (FDI) in multi-brand retail. This came close on the heels of the Aam Aadmi Party also declaring its opposition to the ruling Congress's showpiece reform. Indeed, among major political parties, Congress now remains the sole supporter of the policy.

A contentious proposal to begin with, its fate now depends on the electoral arithmetic after the general elections. Rachna Nath, Leader (Retail and Consumer) at PricewaterhouseCoopers India, says that the whole issue is now dependent on the number of seats contesting political parties get. "Till then, it's a wait-and-watch game for everyone," she says.

The United Progressive Alliance government in its second term made several

attempts to bring foreign capital into the retail sector. The Indian government allowed 51 per cent FDI in multi-brand in September 2012, a few months after allowing 100 per cent in single brand retail. It did manage to attract some investments in single-brand retail – Swedish furniture-maker IKEA. British footwear retailer Pavers and Swedish retail-clothing company Hennes & Mauritz announced plans for India – but there has only been a single FDI proposal in multi-brand retail so far. British retailer Tesco will buy 50 per cent stake in Tata Group-owned Trent Hypermarkets for \$110 million.

Several stipulations in the existing FDI policy are acting as deterrents for global retailers, say industry insiders. For example, the Department of Industrial Policy and Promotion (DIPP), the authority that frames FDI policy, stipulated that

BJP AND AAP have opposed FDI in multi-brand retail in their manifestos

SIZE OF RETAIL INDUSTRY: \$518 billion in 2012. Organised retail is about 7 per cent



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FITS AND STARTS

September 2012

Government allows 51 per cent foreign investment in multi-brand retail with a bunch of riders

June 2013

Government issues clarifications following lack of response from foreign retailers

December 2013

Tesco becomes the first retailer to announce \$110-million investment in Trent's Star Bazaar hypermarket chain for a 50 per cent stake



EXPERTS SAY THAT CONTINUED UNCERTAINTY ON MULTI-BRAND RETAIL COULD SEND WRONG SIGNALS TO THE GLOBAL BUSINESS AND INVESTOR COMMUNITY

foreign retailers with plans to set-up multi-brand chains have to invest a minimum \$100 million with 50 per cent of that amount spent in building back-end infrastructure such as warehouses and cold storage facilities. This proposal has upset retailers because investing 50 per cent in back-end operations initially is difficult when the focus has to be on increasing the store count to acquire scale. Harinder Sahni, Founder and Managing Director at retail consulting firm Wazir Advisors, says that it is not an attractive policy for retailers in its present form. "If the new government is interested in bringing foreign investors, the whole policy has to be rewritten," he says.

This appears unlikely after the elections given the opposition to the policy from most political parties. BJP is in favour of FDI in infrastructure and several other sectors but "we don't want FDI in multi-brand retail because that will save jobs in the manufacturing sector," says BJP spokesperson Prakash Javadekar. The main problem is the sourcing of products, according to him. "Global chains are expected to source their products from multiple countries which will lead to large scale job losses in manufacturing," he adds.

The opposition to multi-brand retail is also stemming from the threat that these global chains are likely to pose for local mom-and-pop shops. With their competitive pricing techniques, politi-

cal parties feel that modern retailers can snatch away business from kirana stores.

Continued uncertainty on the issue of multi-brand retail could send wrong signals to the global business and investor community, say experts. A few months ago, 12 states and union territories had allowed FDI in multi-brand retail. In the last four months, two – Delhi and Rajasthan – have decided to opt out of this list with the formation of new governments. "If I was one of these foreign retail chains, I would be really concerned," says Amitabh Mall, Partner, Boston Consulting Group.

A long break-even period and limited geographical locations are forcing retailers to either hold back their India plans or look for other avenues to grow in the country.

Walmart India, which currently operates 20 cash-and-carry – or wholesale trade – stores (named Best Price Modern Wholesale), has plans to open 50 more such stores in the next four to five years. Some consider expansion of cash-and-carry business a strategic decision. Retailers want to build strong network of vendors and stores which could support their front-end business as and when they get approvals.

India is trying to modernise its front-end retail sector. But with entry barriers to FDI being raised, it seems the country has taken two steps backward after a step forward. ♦



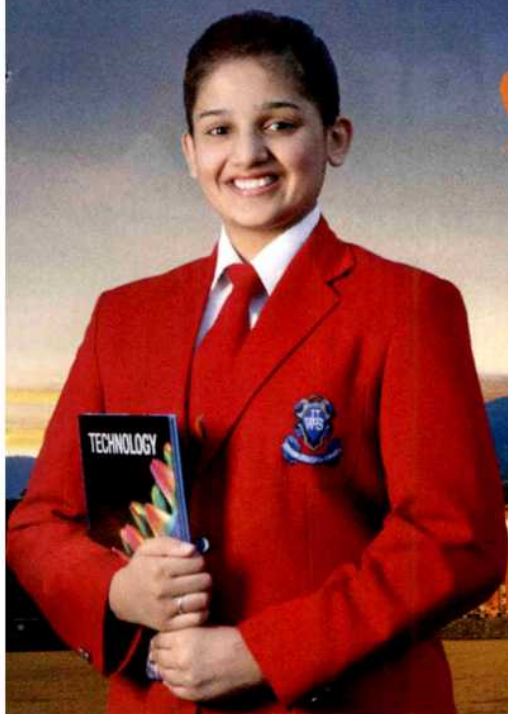
"WE DON'T WANT FDI IN MULTI-BRAND RETAIL... GLOBAL CHAINS SOURCE THEIR PRODUCTS FROM MULTIPLE COUNTRIES WHICH WILL LEAD TO LARGE SCALE JOB LOSSES IN MANUFACTURING"

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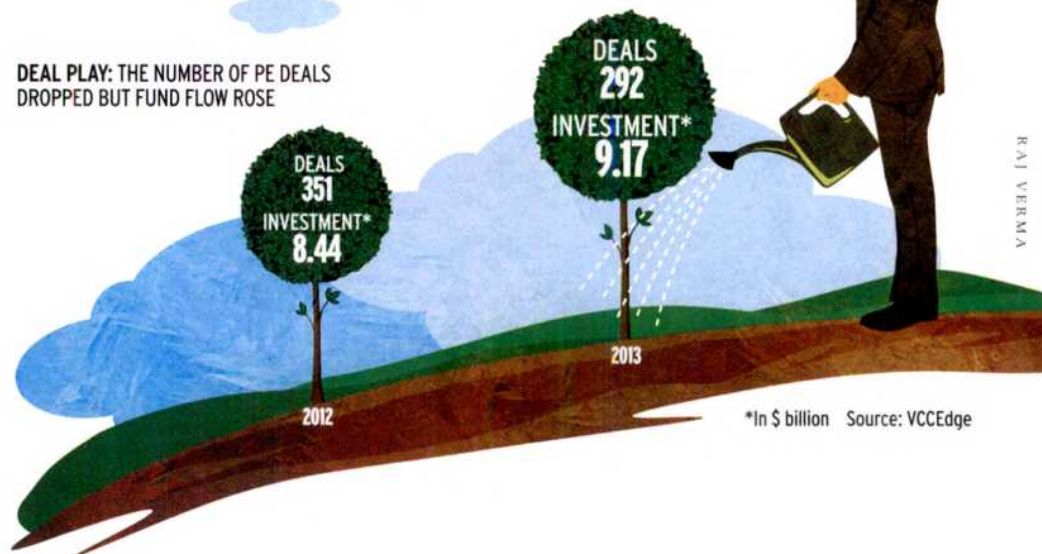
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Less Is More

Why private equity firms chased fewer deals but invested more money in India during 2013. By SARIKA MALHOTRA

DEAL PLAY: THE NUMBER OF PE DEALS DROPPED BUT FUND FLOW ROSE



RAJ VERMA

**PE FIRMS ARE
LOOKING FOR
BETTER-QUALITY
DEALS AND
PREFER TO
PUMP MONEY
IN MID- AND
LARGE-SIZED
BUSINESSES**

Private-equity (PE) funding in India is going through a churn with fewer companies attracting higher capital from investors. Data from research firm VCCEdge show there were 292 PE deals worth \$9.2 billion in 2013. This represents an eight per cent rise in value and a 17 per cent drop in volume from the previous year.

What does this indicate? Some analysts feel this shows the number of businesses worth investing in is shrinking. Given the economic slowdown, a weak rupee and an uncertain policy environment, it's not a surprise fund managers are carefully weighing their investment commitments. Fund managers also say the fall in the number of investable businesses is leading to higher valuations, which is impacting their returns on investment.

Keshav Mishra, Partner at PE firm Baring India, says investors are more cautious than before. "Uncertainty around regulations and policies is adding to the woes of fund managers," he says. He cites the example of the infrastructure sector, which attracted big-ticket investments a few years ago but has lost steam now owing to policy uncertainty. "We are in a wait-and-watch mode," he says. "What initiatives the new government takes would decide the way investors put their money."

Some analysts, however, believe the drop in the number of transactions and the increase in value is a sign that investors are looking for better-quality deals and prefer to pump money in mid- and large-sized businesses, rather than small companies. To be sure, the Indian PE market continues to be dominated by minority investments. But the mix is slowly moving towards larger transactions. The largest PE deal in 2013 was Qatar Foundation's \$1.26 billion investment in Bharti Airtel, India's biggest mobile-phone operator.

Vikram Utamsingh, Managing Director of the Transactions Advisory Group at professional services firm Alvarez and Marsal, says PE firms are looking at bigger companies because their return on investment in smaller businesses over the past decade fell short of expectations. "There is also a preference to invest in businesses which have had earlier rounds of fundraising either from venture capital or smaller private-equity firms," he says. "This is because these businesses have fewer corporate governance issues and their promoters have demonstrated a positive working relationship with investors and have grown their businesses successfully." ♦

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AIJAY THAKURI

Flip Side of the Coin

The rupee's comeback is great for the economy.
But not for exporters. By AJAY MODI

THE EXPORT SLOWDOWN SINCE NOVEMBER IS DUE MAINLY TO A FALL IN THE VALUE OF PETROLEUM PRODUCTS AND GEMS AND JEWELLERY

A decline in the country's exports in the last two months of the previous fiscal year, coinciding with an appreciation of the rupee, has raised questions about competitiveness of the Indian industry. Government data show shipments declined 3.67 per cent and 3.15 per cent in February and March, respectively. Exports for the year through March totalled \$312.35 billion, up four per cent from the previous year but missing the government's target of \$325 billion.

"A depreciation of the Indian rupee against the US dollar had made exports competitive for most of the previous fiscal year. So long as it lasted, exporters, especially in segments like gems and jewellery, textile and leather, enjoyed an advantage. With the ru-

pee appreciating and stabilising at 60 to 61 versus the dollar, the edge is gone," says Sunil Kumar Sinha, Principal Economist and Director at India Ratings and Research. Sinha says these segments are high-volume, low-margin businesses. "Players in these segments were able to compete aggressively due to the cushion they had from the rupee's depreciation last year," he says. But the resultant competitiveness was not sustainable and so things are now taking a turn. "If you have to compete on a sustainable basis, you have to increase productivity and enhance margins. This will require better infrastructure, investment in roads and ports, and access to credit at viable interest rates."

Some analysts, however, disagree that the

rupee's appreciation has slowed the pace of exports. "In the past there have been phases when the rupee firmed up but exports did not drop. Let us not give much importance to it," says Biswajit Dhar, Director General, Research and Information System for Developing Countries, a think tank under the Ministry of External Affairs.

Ajay Sahai, Director General and CEO of the Federation of Indian Export Organisations, agrees with Dhar. "Small exporters especially in traditional sectors like handicrafts, carpets and textiles are hit as they are not able to hedge their risk like large exporters in sectors like petroleum. The main issue leading to India missing its export target is slowing down of manufacturing, since there is a direct link between industrial output and export growth. Another reason that has led to exports slackening is the lacklustre performance of Latin American markets," he says.

While the sector-wise performance for March is not available, an analysis of trends for February shows that exports of petroleum products and gems and jewellery have taken a hit. The two segments together account for one-third of the country's exports. A CRISIL analysis attributes the slow-down in exports since November 2013 to a fall in the value of petroleum products and gems and jewellery.

Take the case of petroleum products, which account for close to one-fifth of India's exports. In February, the volume of petroleum products exported grew 14 per cent from a year earlier to 5.2 million tonnes, show data compiled by the Petroleum Planning and Analysis Cell, a wing of petroleum ministry. However, the value of exports grew only seven per cent to \$4.76 billion. Petroleum products export had peaked to \$6.40 billion in September 2013 but started declining from October onwards. In the April-to-February period of the last fiscal year, petroleum exports grew 9.22 per cent in volume terms but only five per cent in value terms.

Data with the Gems and Jewellery Export Promotion Council show that shipments of gems and jewellery declined 10 per cent in the April-to-February period to \$30.82 billion. In February, exports slipped more than eight per cent to \$3.15 billion. The segment accounts for

13 per cent of India's exports. The council said in February that the sector has posted a drop in exports for a year, hurt by the government's steps to curb gold imports as part of efforts to bring down the current account deficit.

Dhar says the drop in exports is because of varying market conditions. "Too many countries are vying to get a pie of the global export market. There have been uncertainties in the global market. We are in a situation where we have to push exports as much as we can," he says.

Incidentally, China also reported a drop in exports. In March, exports from the biggest Asian economy dropped

SEESAW EFFECT

Does the exchange rate impact exports? For most parts, yes



6.6 per cent. Sinha said a drop in Chinese shipments isn't surprising because the nation exports primarily to the developed markets, which are barely growing. "If China is facing a drop you know what the export market is like," says Dhar.

Both Sinha and Dhar are not hoping a dramatic change in exports in the current fiscal year. "If you look at the trend of the past few years, we have been losing competitiveness. I do not expect a major turnaround this year unless we look at all the problems from the shop floor to the high transaction costs," adds Dhar. ♦

WITH INPUTS FROM TASLIMA KHAN

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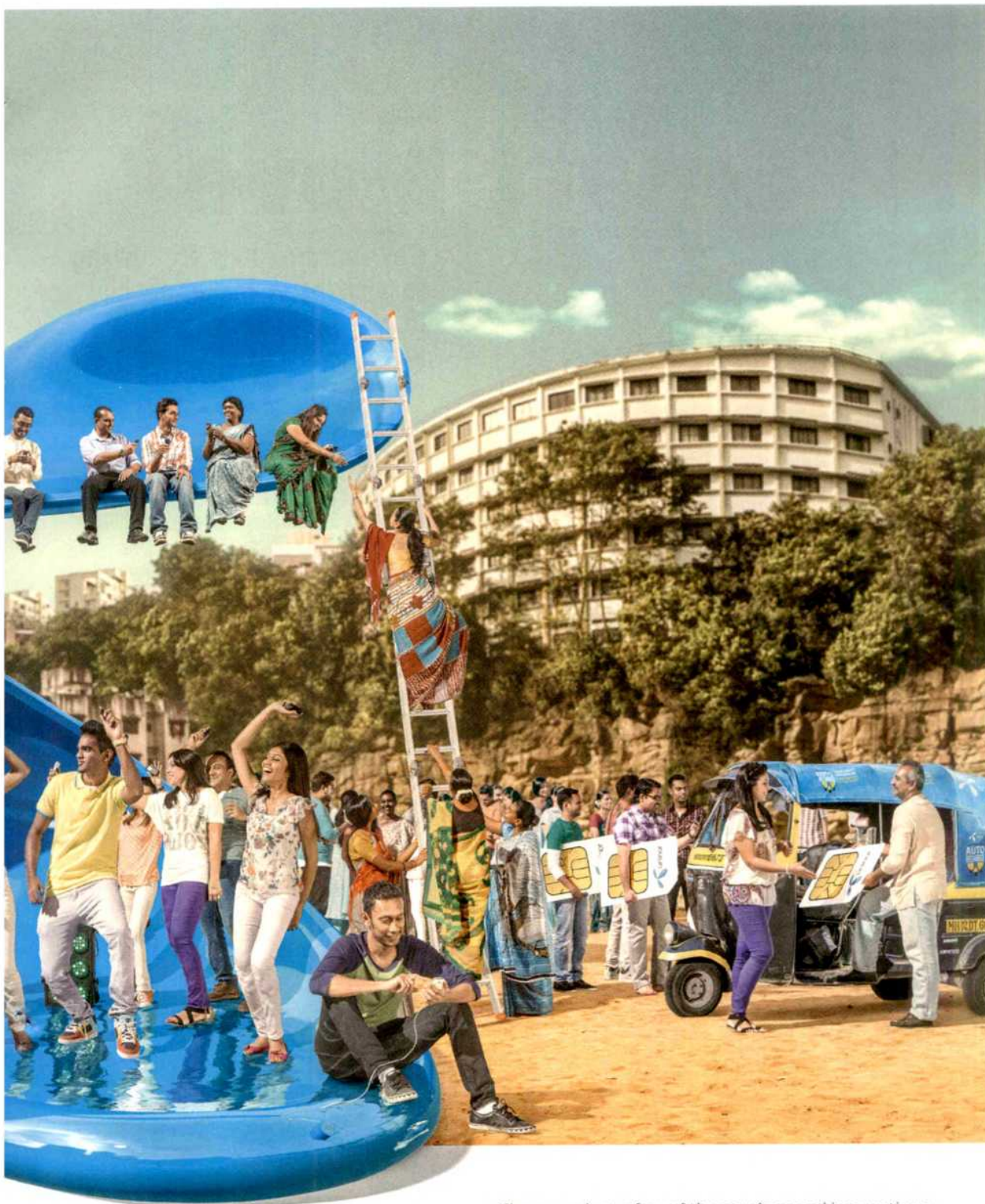
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Smart Move

Why venture funds are rushing to back Ineda, maker of chips for wearable devices.

By E. KUMAR SHARMA

WEARABLE TECHNOLOGY IS A GROWING MARKET, AND IS EXPECTED TO BE A \$10-BILLION INDUSTRY BY 2016



Action wear: Dasaradha Gude's team is working on a chip that enables smart watches to recognise gestures

Ineda Systems is just the sort of company you'd expect from Dasaradha R. Gude, who has spent a large part of his career in the world of processors. "We are processors" is how he describes himself and his team of nearly 200 people.

Gude, or GD as he is known to many of his colleagues and business

associates, is clearly excited about the power of wearable chips.

Ineda – the name is derived from 'integrated electronics designs for advanced systems' – designs chips for use in wearable devices.

From 2007 to 2010, Gude was Corporate Vice President at Advanced Micro Devices (AMD) Inc, and later Managing Director at AMD India. He founded Ineda in 2011, and members of his team have previously worked in global companies such as AMD and Intel. He says: "They are people with courage to leave big companies and step out to do something innovative."

To his customers, he plans to offer chips

in sizes of five, seven, nine and 12 square millimetres, which can fit into wearable devices such as smart watches, health and fitness trackers, and pretty much anything that needs to be connected to the emerging 'Internet of things' which allows users to monitor connected devices from a long distance.

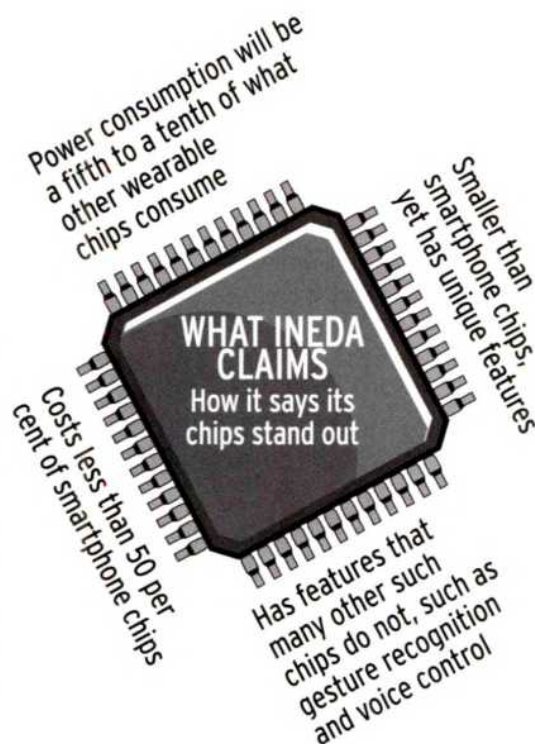
He promises chips that not only go easy on battery life, but also

versions that can provide a range of features, almost like a smartphone. He says his potential customers are leaders in wearable technology, who would need tens of millions of chips a year, and this would bring his costs down.

The going has been good so far for Ineda. The company has just received funding from the US-based Walden Riverwood Ventures, from the venture capital arms of Samsung and Qualcomm, and a UK-based research and development company called Imagination Technologies. The total funding is to the tune of \$17 million or ₹103 crore, and Gude intends to use the money to ensure that the chips attain stability for mass production. In April 2013, Ineda raised \$10 million (more than ₹60 crore), with Imagination Technologies as the lead investor.

The chips will be manufactured in Taiwan, and Gude is in talks with about two dozen potential customers, big names in the wearable technology market such as Nike and Fitbit. "Because we have a unique proposition and will need huge volumes, we are talking to the really big guys," he says.

Clearly, wearable technology is a growing market. Gude says it is already worth a couple of billion dollars globally, and is expected to be a \$10-billion industry by 2016. Everyone, from Google to Intel to fitness companies, has its eye on this market. For



instance, Theatro, a US-based company, is developing voice-controlled wearable computers for the retail and hospitality segments of the enterprise market. It emerged from stealth mode in December 2013 when it announced its product's commercial availability and relationship with its first customer, The Container Store. Its tiny 3.5-gm WiFi-based wearable device enables voice-controlled human-to-human interaction

(one-to-one, group and store-to-store) and replaces two-way radios. It also enables voice-controlled human-to-machine interaction with, say, in-store systems for inventory, pricing and loyalty programmes. Another potential use is in-store employee location-based services and analytics.

There is so much excitement about wearable technology that some companies are even crowd-sourcing ideas. For instance, Intel has launched its 'Make It Wearable' challenge, which offers prize money to the best real-world applications submitted by designers, scientists and innovators.

So Ineda's chips could be used in devices such as Google Glass, smart watches, and Nike's FuelBand. And when does Ineda expect its chips to become commercially available? "End of this year or the by the first quarter of 2015," says Gude.

He says that at the moment, he has no direct competitor with whom he can do an apples-to-apples comparison. His rivals are either too big and expensive, or too small with few functionality options. He positions Ineda somewhere in between in terms of functionality and price. How the market will respond remains to be seen, but investors are clearly interested. ♦

@EKumarSharma



Hit and Fit

App Name: MS Office for iPad; Free

The newly launched the Office suite, including Word, Excel and Microsoft PowerPoint, is already a hit among users. Using the free app, one can open documents and read them. Editing Excel is a delight on the iPad. Those with an Office 365 subscription will be able to edit old documents and create new ones. The subscription allows users to install Office for iPad apps on a maximum of five tablets plus use five copies on PCs. The documents are stored on the cloud and can be accessed from anywhere.

NEW OFFICE SUITE FOR IPAD, AN IMPRESSIVE CAMERA AND A TABLET WHICH CAN REPLACE YOUR LAPTOP



Beginners' Delight

D3300 is a DX format camera with a 24.2 MP CMOS sensor, which makes it a good choice for beginners. Nikon has improved the user interface and the 'Guide Mode' to give it more functionality and make it a little cleaner in appearance. The camera now displays three circles, which represent shutter speed, aperture and sensitivity. These displays change as you alter settings. The new 18-55 mm f/3.5-5.6 VR II kit lens that comes with the D3300 is one of its main attractions. For the first time, Nikon has put in a retractable design to make the lens more portable when not in use. As a result, the lens is much more compact. The image quality is impressive and reproduction of detail excellent.



Sharp images, retractable design



No built-in Wi-Fi connectivity

NIKON D3300 Price: ₹37,950
(with 18-55 mm VR lens)

SAMSUNG GALAXY NOTE PRO 12.2 Price: ₹69,999

Big Gets Bigger, Better

Samsung already has a 10.1-inch Note and we are used to the 9.7-inch Apple iPad. So what's the big deal about the 12.2-inch Galaxy Note Pro? Well, it does feel BIG. You get the feeling of having a laptop monitor in front of you minus the keyboard. The screen with 2560x1600 pixels looks sharp and rich. The tab runs Android KitKat and is powered by 1.9+1.3 GHz quad core processor, paired with 3 GB of RAM. There is a Google search bar at the left bottom and the app tray icon at the right bottom. Swiping from the right brings up the apps that support multiple windows. The Galaxy Note Pro offers a zippy performance. Multi-tasking is a delight. The fast performance and bright display make gaming a delight.

Watching HD videos is an enjoyable experience. Pair it with a Bluetooth keyboard and a kickstand and the tablet can replace your laptop.

NIDHI SINGAL



Bright display, S-Pen



Price



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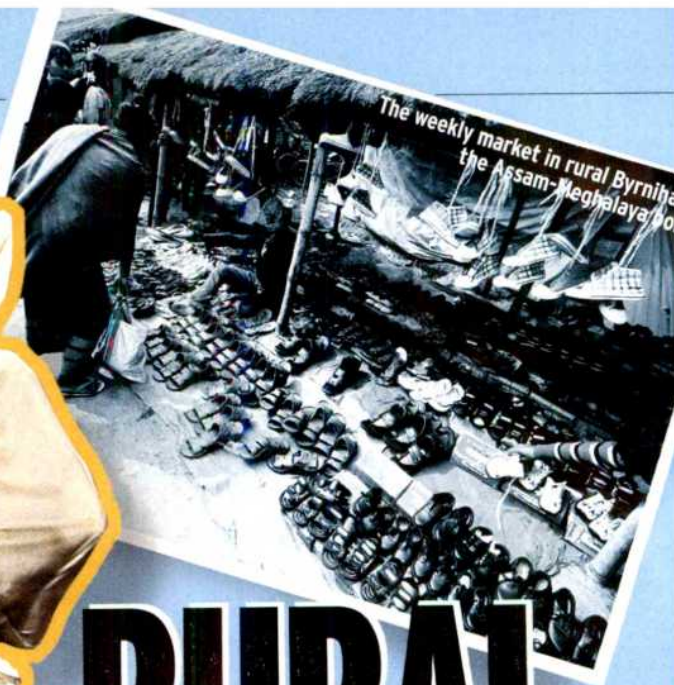
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RURAL ROCKS

Rural Bharat is fast catching up with urban India as various pointers in the 68th National Sample Survey Office (NSSO) data show.

Graphic by **Anand Sinha** Research by **Jyotindra Dubey**

1 Monthly per capita expenditure (MPCE) in rural areas has been picking up in recent years. Though it remains well behind urban, the rate of growth of rural MPCE surpassed that of urban India in the latest round of the National Sample Survey data for the first time in 15 years





2 Among the states, Kerala tops in rural spending, while Odisha is at the bottom

HIGHEST

Kerala	2,669
Punjab	2,345
Haryana	2,176

LOWEST

Jharkhand	1,027
Chhattisgarh	1,006
Odisha	1,003

Figures show monthly per capita expenditure in ₹ Source: NSSO

3 Expenditure on food is the biggest component of spending among the poor. Recent data shows non-food expenditure in rural India has surpassed food expenditure, clearly indicating an improvement in living standards

Non-food Expenditure

45%
2009/10

46.4%
2010/11

51.4%
2011/12

Food Expenditure

55%
2009/10

53.6%
2010/11

48.6%
2011/12

Source: NSSO. Figures are percentages of total expenditure

4 Where does the non-food expenditure in rural India go? The major items rural folk spend on are clothing, durables, footwear, entertainment and medical treatment. Expenditure on entertainment has risen the most between 2009/10 and 2011/12



Entertainment



Clothing and footwear



Durable goods



Medical Expenses



Education

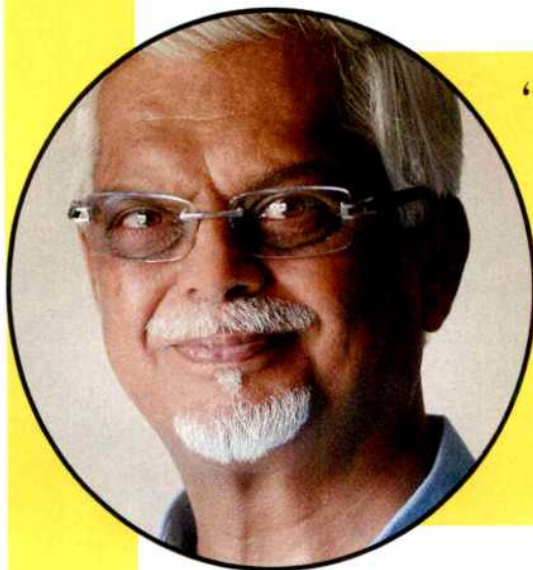
Source: NSSO. Figures are percentages of total expenditure

5 The urban-rural divide may be narrowing but the rich-poor gap in expenditure has been growing since 2009/10 in both rural and urban areas

	Rural - MPCE*		Urban - MPCE	
	2009/10	2011/12	2009/10	2011/12
Poorest 10% income group	453	504	599	702
Richest 10% income group	2,517	3,460	5,863	7,652
The rich spend	6 times more	7 times more	10 times more	11 times more

“(The book shows) the mother-son duo (Sonia and Rahul) deliberately compromised the dignity of the office of PM so they could rule without being held accountable”

Narendra Modi, BJP's prime ministerial candidate, quoted by wire agencies



“The country should know what is happening at the highest level of governance. I wrote the book to let people know the success and failure of Manmohan Singh”

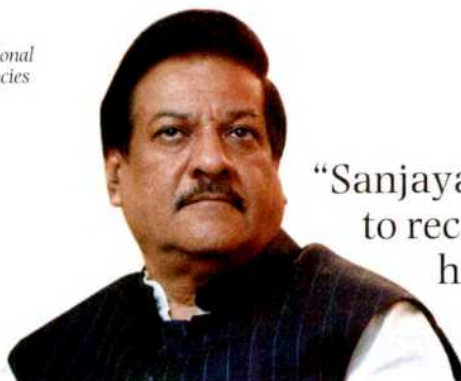
Sanjaya Baru, Media advisor of PM Manmohan Singh from 2004-08, quoted by wire agencies

**“NO ONE READS
PARAKH OR
SANJAYA BARU'S
BOOKS. ALL THESE
BOOKS ARE
SPONSORED
BY MODI”**

Digvijaya Singh,
General Secretary, Indian National
Congress, quoted by wire agencies

“The book also gives an impression that the Prime Minister wanted to cling to office in his second term. This is such a misreading of his personality”

Upinder Singh, Daughter of PM Manmohan Singh,
in *The Indian Express*



“Sanjaya Baru has written it obviously to record his memoirs as he saw it in his position. But the timing is very critical”

Prithviraj Chavan, Chief Minister, Maharashtra
in *The Times of India*



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One day in 2006, Mukund Mohan stared at his receding hairline. He didn't like what he saw on his crown – a little bit of hair here, a little bit there, like a patch of garden insufficiently watered. "Either I want lot of hair or no hair at all," he told himself before shaving it all off.

Those who knew the India Director of Microsoft Ventures well were not surprised. People call him 'extreme'. He doesn't like words such as 'normal' or 'average'. "Average is boring. Either be excellent or don't do it at all," Mohan says, talking of start-ups, his biggest passion. And he has an equally extreme view about investors. "If an investor (in a start-up) does not help you with a next step, he is a moron. Period," he has written on his blog.

His search for excellence in India's start-up ecosystem has helped Microsoft connect with exciting new companies that are working on new technologies. Mohan joined the company two years ago to head an initiative wherein the world's

NILOTPAL BARUAH



Going to **Extremes**

largest software product firm offers budding start-ups workspaces, access to technology, mentorship and most crucially, lines of communication with the venture capitalist community. The idea is simple – today's small could be tomorrow's biggie. By engaging with innovative start-ups at an early stage, Microsoft can keep a tab on innovations and also sell the innovators its products and platforms when they scale up.

Microsoft Ventures has done well in India – since July 2012, 36 companies have passed through its

Mukund Mohan, whom Microsoft recently relocated from Bangalore to Redmond to build Microsoft Ventures in the US, is a dream mentor for entrepreneurs.

By GOUTAM DAS

programmes and 82 per cent of them have got funded.

A happy Microsoft has now awarded Mohan a global responsibility. From July, he will relocate from Bangalore where he now lives to Redmond, the company's headquarters in the US; he will help set up and boost Microsoft Ventures's presence in the country.

So, why does Microsoft love this bald chap so much? And not just Microsoft – so do many start-ups.

Mohan, 41, was born in Mumbai. He completed his



Start-up Star: Mukund Mohan
in his Bangalore office

Bachelor's degree in Engineering and Computer Science from the University of Mysore and his Masters from the University of Maryland, Baltimore County.

He worked with Cisco for three years before turning serial entrepreneur. He started and exited three companies (Interfinity, Amura, BuzzGain) and failed at one (Asera). He has invested in 25 start-ups in Silicon Valley and in India. He writes a popular blog, tweets, plays tennis, loves wearing chappals, prefers communicating through apps than mails and is often spotted slipping in and out of product con-

ferences, not forgetting to hug everybody he knows. He does not watch television, hardly reads newspapers. Mohan is married to angel investor Vinita Ananth; they have four children. He moved to India in 2008 so that his kids could see what India was like.

The move also enabled select Indian entrepreneurs to see the world through his lens. Mohan brought to the table both experience and connections. His friends and co-workers feel his phone contact book is one of the most organised they have ever known. "He carefully saves all the details about a new contact he makes. His ability to delve into his contact list and use it effectively is amazing," says Jasinder Singh Gulati, Co-founder of start-up firm NowFloats, which can get you a website with automatic search engine optimisation in 13 minutes. "He introduced us to the former head of Nokia's developer ecosystem. Nokia eventually became a customer," Gulati adds.

His was one of the first companies to be mentored by Mohan at Microsoft. Founded in 2012, the company has scaled up since and has 10,000 customers.

"Bringing up something which is at an early-stage to a product and then scaling it to newer heights excites me a lot. Helping people do something they want to drives me more than anything else," Mohan says. "You meet amazingly interesting and smart people who do the impossible. I love watching these people and their companies take shape and grow. It's a lot of fun."

His expanded role at Microsoft Ventures now means he can help start-ups in the US as well as in India and elsewhere. His ability to help entrepreneurs build networks has

made him an enduring presence, even with his extreme likes and dislikes. And his innate goodness is creating quite a legacy.

Krish Subramanian is Co-



VIVAN MEHRA

Jasinder Singh Gulati
Co-Founder, NowFloats

"Mohan introduced us to the former head of Nokia's developer ecosystem. **Nokia eventually became a customer**"

founder of ChargeBee, a billing solutions start-up. The company is not part of any Microsoft programme, but Mohan mentored him. "He mooted the idea of keeping a blog calendar – we have written about 300 blogs in the last year and a half and it has helped us in our search engine optimisation," Subramanian says. He offered Mohan equity in return but was turned down. "When you scale up and do well, help other start-ups. My equity can go to them," Mohan said. ♦

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FALLING IN LINE

Global investors gear up to working with Narendra Modi despite reservations about his secular credentials. By ANILESH S. MAHAJAN

Narendra Modi recently found support from an unusual quarter. Tulsi Gabbard, a member of the US House of Representatives, opposed a proposal to boycott Modi – even if he becomes the Prime Minister of India – at an April 4 hearing of the

Tom Lantos Human Rights Commission. A Democrat, Gabbard comes from Obama's home state Hawaii and is the only Hindu in the Lower House of the US Congress. She minced no words in criticising the Lantos Commission – a panel of the House of Representatives – for taking up the petition on Modi, calling it an effort to influence the ongoing elections in India. Obama administration's representatives chose to abstain from the hearing.

Indeed, as the above example illustrates, Modi's rise to prominence in the past few months has captured

global attention. The Obama government itself is mulling its approach to Modi, the Bharatiya Janata Party's (BJP) prime ministerial candidate, if he is voted to power. It was in 2005, amidst allegations of his involvement in the 2002 riots in Gujarat, that the US government revoked his business visa and subsequently the UK administration also issued an embargo.

Global investors, too, are following the electoral battle in India closely. In their reports, several financial giants, such as Goldman Sachs, HSBC, Citigroup, CLSA, Bank of America Merrill Lynch, Nomura and Barclays, came out with their assessment of the political situation in India and almost all of them indicated that Modi is the favourite to become the Prime Minister. *The Economic Times* reported that some foreign brokerages are offering investors a "Modi Basket" of stocks that are likely to gain if he comes to power. The report did not have the brokerages or the stocks.

Significantly, most of financial institutions praise Modi's governance style. Japanese brokerage house Nomura has predicted that if Modi is voted to power the Indian currency might strengthen to ₹58 against the US dollar and the GDP growth rate might climb to six per cent by the end of this financial year. But many of the economists with these institutions admit privately that if Modi comes to power, it will be a test of his secular credentials and his ability to carry different sections of the society along with him on important policy decisions. "His commitment to secularism will be tested, if he comes up as a winner in these elections," says an economist with one of these banks.

The international magazine, *The Economist*, in a recent story on Modi, expressed the same reservations. A.V.T Shankardass, a motion picture financier in Hollywood, says that after the collapse of Lehman Brothers investors are very cautious. "They

HOW THE ODDS STACK UP FOR MODI

PRO-MODI VIEWS

Record as an administrator

2002 Gujarat riots

Investments in infrastructure

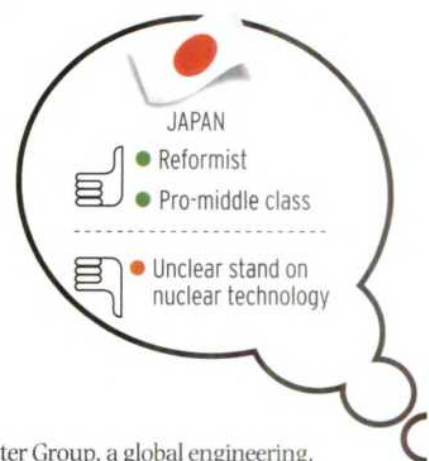


ANTI-MODI VIEWS

His ability to carry along everyone in a coalition government is suspect

Secular credentials suspect. Has not apologised yet for the riots

Has a nationalist approach. Might prefer Indian companies and keep foreigners out



get scared when they hear that a possible future prime minister of India has a Hindu nationalist ideology. Then these investors may keep India in the same league of Islamic countries." But other analysts say any apprehensions about Modi would be allayed by his strong governance track record in Gujarat. "Some of the Muslim leaders might fear Modi for his alleged involvement in the riots. But most of the investors trust Modi's track record, and would not hesitate to invest in his regime," says Jai Seong Song, a former minister in the South Korean government.

Banking on Modi

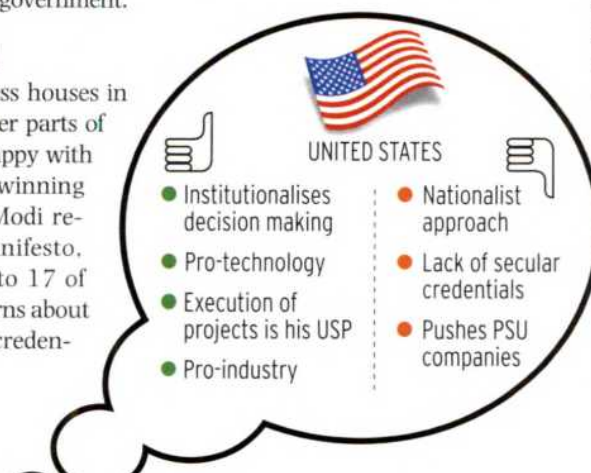
On the ground, business houses in the US, the UK and other parts of European Union are happy with the prospects of Modi winning the polls. Ever since Modi released his party's manifesto, *Business Today* spoke to 17 of them. They have concerns about his unproven secular creden-

tials, but are quick to add that if he comes to power, he would be accountable to the people and constitutional institutions.

The biggest problem for India is policy paralysis and in some cases bad decision making, according to business honchos and investors abroad. "India's credibility as a strong emerging economy has taken a serious setback in the last two-three years due to perceived corruption, policy paralysis, and economic reforms process getting stalled," says Richard Sadler, CEO of UK's Lloyd's

Register Group, a global engineering, technical and business services organisation. "Global investor sentiments are perhaps at the lowest level in the last two decades. The country is crying out for a politically stable government, good governance and revival of economic policy reforms process."

Most of the global investors are hoping that the Modi-led National Democratic Alliance (NDA) gets a majority. "If Modi gets a clear majority or reaches near it, then he can be good for the economy. My suspicion is that a Modi government with a fractured mandate could prove to be another edition of the UPA regime with low-decision making," says R.K. Mehrotra, Chairman of London-based shipping-to-retailing Foresight Group. Mehrotra says he is holding on to his group's investments in the Indian oil and gas sector till May. If there is no clear majority government, he will opt to exit



from the oil and gas blocks.

There is another reason for Mehrotra to be wary of Modi. Pavers England's single-brand retail chain in India is a joint venture between Pavers and the Foresight Group. The BJP is known to be opposed to foreign direct investment (FDI) in retail, and there are fears this hostility may at some stage extend to single brand retail as well. However, he says it is not Modi who has apprehensions about FDI in retail, it is his party. "I heard his recent speech, where he was telling mom-and-pop shop owners to pull up their socks and get ready to compete with global players," says Mehrotra.

Without naming Modi, Banmali Agarwala, CEO and President, South Asia at global energy and infrastructure giant GE, says that the new government would need to hit the ground running. "It is high time India encourages bold decision making," he says. While releasing BJP's manifesto on April 7, Modi committed his party to opening up most sectors to FDI except multibrand retail. He also prom-



"It's not Modi who appears to have apprehensions about FDI in retail, it is his party" R.K. Mehrotra, Global Chairman, Foresight Group

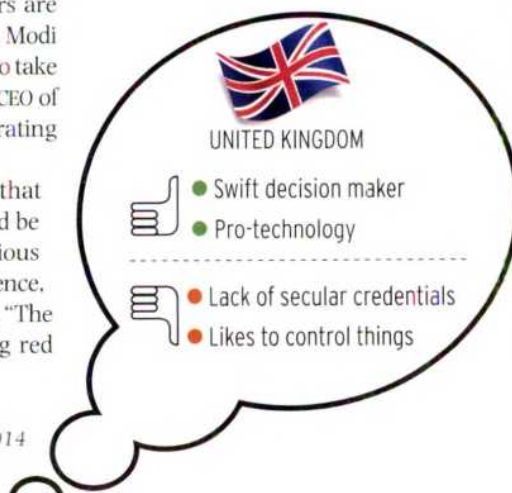
ised that his government would reform and simplify taxation laws, land acquisition processes, labour laws, agriculture laws and would invest in infrastructure, including bullet trains, developing freight and manufacturing corridors. All these proposals are applauded by foreign investors. "But the foreign investors are suspicious, being a nationalist, Modi might want Indian companies to take most of the projects," says the CEO of a top American company operating in India.

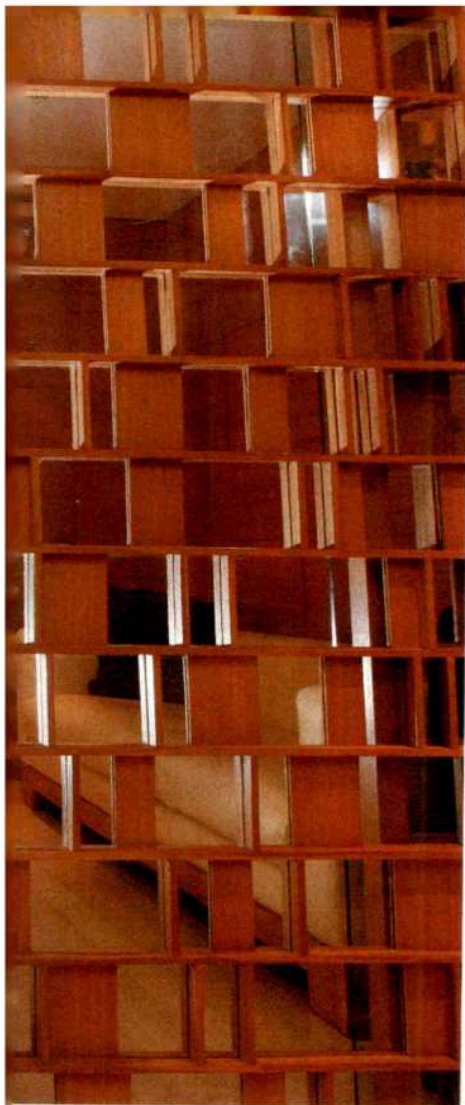
But most investors believe that a politically strong Modi would be able to push through contentious issues such as raising FDI in defence, banking and insurance sectors. "The manifesto talks about cutting red

tape and simplifying procedures. We have had the same objectives here in the UK, which has turned our economy around quicker than anyone predicted," says Sadler of Lloyd's Register. "The manifesto is strongly in favour of FDI for job creation, infra-

structure development, and inducting niche technology."

India's nuclear policy is also being closely watched by foreign investors. In 2008, the US banked on Manmohan Singh to get the nuclear deal through. But various companies working in this space believe that Modi could take the deal to a logical conclusion. Today the most contentious issues are the liability clause and tracking the end-use of the fuel. Senior BJP leaders, who are part of Modi's team, say that they are ready to make changes in the liability act to make this accord work. "Today no supplier wants to come forward with this liability clause. There has to be some insurance framework around on compen-





Interview with Robinder Sachdev, Co-founder
US India Political Action Committee, at
www.businesstoday.in/sachdev-usindia

relations with the US and the UK. This might work in France's favour," says an analyst. Modi is open for a hike in FDI in the defence sector, from the existing 26 per cent to 49 per cent, and in some cases even to 51 per cent. This is one of the long-standing demand of investors from the US, the UK, Italy, France and other parts of Europe. "If it truly goes to 49 per cent, it would allow people like me to go back to our corporate leadership and say now we have an opportunity to go and invest," said Jeff Kohler, Boeing's Vice President of International Business Development in Defence, Space & Security, at the Singapore Air Show, according to reports by news agencies.

Uncle Sam's Dilemma

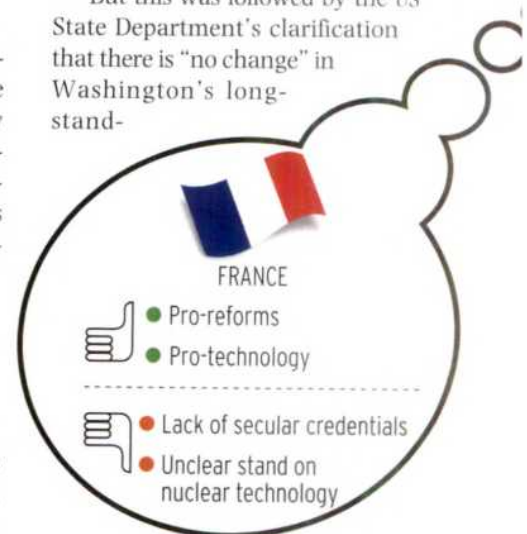
Meanwhile, Narendra Modi's growing proximity to China and Chinese companies may discomfit the US, say analysts. More than trade and business, US needs India as a counterweight to China in Asia. Modi has visited China four times and is actively seeking investments by Chinese companies in sectors like infrastructure, solar panel manufacturing, semi-conductors, renewables, port development and very high value-added products. "It would be in Indian interests to keep good terms with both the US and China," says Naresh Chandra, former Indian ambassador to the US.

The Obama administration has not taken a final stand on the visa ban on Modi. If Modi becomes prime minister, it is most likely that he would have to travel to the US in September to attend the UN General Assembly in New York. Modi has so far maintained a discreet silence on the visa ban but the BJP leaders, who are part of Modi's coterie, including Arun Jaitley, Piyush Goyal and Arun Shourie, are believed to be in touch with Democrat Congressmen and Senators. The industry lobby group, US India Business Council, has also been lobbying with the Obama administration to revoke the visa ban

on Modi. Delegations of US businessmen have regularly visited Gujarat in the past and met Modi. There have been investments from the US in Gujarat over the past decade, amounting to \$14 billion during Modi's tenure without active involvement of the governments of the two countries.

In February this year, US Ambassador Nancy Powell met Modi in Gandhinagar, amid speculation that the US was trying to bridge the trust deficit. Powell has since resigned. Her successor has not been named yet. Media reports suggested she has been eased out as she was perceived as being "too close" to the UPA's foreign policy establishment.

But this was followed by the US State Department's clarification that there is "no change" in Washington's long-



sation in case of any accident," says Naresh Chandra, former ambassador to the US.

The BJP plans to overhaul the country's nuclear policy if voted to power. "Nothing has moved forward from the day of the deal. If voted in, our government will make things move in civil use of nuclear technology," says Murli Manohar Joshi, senior BJP leader. In fact, France is keenly pushing for an agreement on the Jaitapur nuclear power plant project. On the last visit of French President Francois Hollande in 2013, no agreement came about as the French partner Areva was non-committal on the liability issues.

Modi is also keen to boost FDI in the defence sector. India is the world's largest importer of defence equipment – its arms imports are nearly three times that of China. "Today Modi does not have great

ing visa policy or in its "strong advocacy for human rights around the world". "It will be a juvenile decision for the US administration, if they continue with their stance of not engaging with Modi. They should respect the democratically elected governments, and deal more maturely," says Kanwal Sibal, India's former foreign secretary.

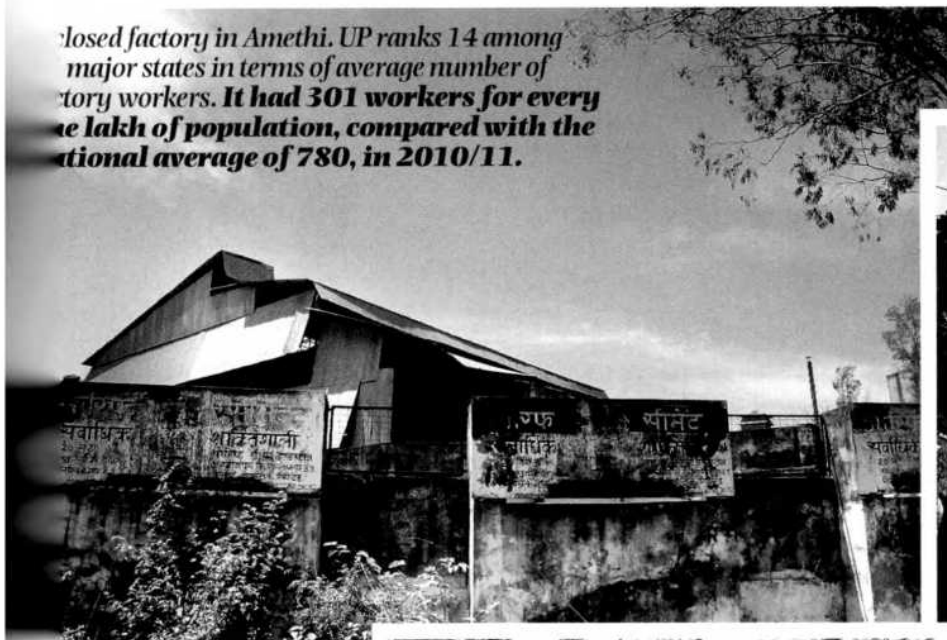
Clearly, all eyes will be on the election results in India on May 16. ♦

@anileshmahajan

UNDERPE

Why Uttar Pradesh, India's most politically significant

closed factory in Amethi. UP ranks 14 among major states in terms of average number of factory workers. It had 301 workers for every lakh of population, compared with the national average of 780, in 2010/11.



→
A group of villagers in Bundelkhand. The state's per capita income was ₹26,355 in 2010/11, half the national average, placing it at the 14th spot among major states.



REFORMER

state, fares poorly on socio-economic parameters.

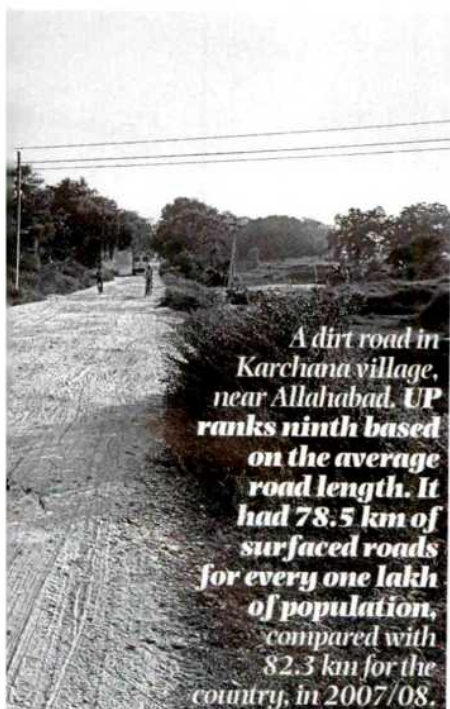
By SHWETA PUNJ

Factory tab khulegi jab kamal khilega (factories will open when the lotus blooms)," says Smriti Irani, the Bharatiya Janata Party (BJP) candidate from Amethi in Uttar Pradesh, at a small

gathering in Atawa village. Irani is referring to the scores of factories in India's most high-profile parliamentary constituency that lie abandoned and the lotus, the BJP's election symbol that she wants her audience to choose on May 7 when Amethi goes to polls. Most of these factories were set up when former prime minister Rajiv Gandhi represented Amethi in parliament and made a concerted effort to get businesses to invest in the constituency. What remains today are crumbling structures of iron, which local residents steal and sell as

scrap to buy illicit drugs.

Amethi is a Gandhi family bastion. It has elected members of the Gandhi family since 1980 – first Sanjay Gandhi, then brother Rajiv, followed by Rajiv's widow, Sonia, and now son Rahul, the Congress party's vice president who is seeking re-election. Besides factories, the Gandhis have managed to get several big-ticket educational projects sanctioned from the central government including institutes for information technology, hotel management and footwear design. These projects also have not yielded the desired results. And, little has changed on the ground. Roads are full of potholes, power cuts last up to 16 hours a day,



A dirt road in Karchana village, near Allahabad, UP ranks ninth based on the average road length. It had 78.5 km of surfaced roads for every one lakh of population, compared with 82.3 km for the country, in 2007/08.

PHOTOGRAPHS BY SHEKHAR GHOSH

"In UP we don't have a Congress government and this affects the people of the state and that is the reality we have to accept"

Rahul Gandhi, Congress Vice President and sitting MP from Amethi



SANJAY SONKAR

and irrigation and health-care facilities remain abysmal.

Amethi, however, is not an exception and the situation is similar across India's most populous state. But why does the state that elects the most number of lawmakers for the Lok Sabha – 80 of 543 – and which produced eight of 13 prime ministers remains one of the worst in the country on socio-economic parameters?

One of the main reasons is the dominance of caste, religion and identity-based politics in the state. Muslims, for instance, have typically voted for Mulayam Singh Yadav's Samajwadi Party (SP) or the Congress while the backward castes have supported Mayawati's Bahujan Samaj Party (BSP) and the BJP has traditionally relied on the upper castes. In other words, development agendas have never been the focus of debate. "There is still a very feudal mindset in the state," says Sharat Pradhan, a veteran journalist. Pradeep Kashyap, Founder and CEO of consultancy firm MART, says the state has failed to produce a visionary leader who could rise above caste and religion and focus on socio-economic progress. "You need a person with a vision of a prime minister to govern UP. It is as big as a country. Businesses there have grown because of their proximity to ruling parties," he says.

Tough business environment

A couple of hours' drive away from Amethi is Lucknow. The state capital is dotted with statues of elephants, the BSP's election symbol. At the state secretariat, not too far away from the modern wing that houses the chief minister's office, is the dusty industry affairs department where a bureaucrat who is barely two days into his job offers a perspective that comes from years of experience. The bureaucrat, who wished not to be named, talks about a company trying to obtain approval for a project. "This clearance shouldn't take more than a few hours but it's been three



↑ **A dry hand pump in Chandauli village, near Varanasi. Getting a hand pump installed can be a very difficult task for people in a state where nearly a third of the population is below the poverty line.**

months," he says. "Decisions that can be and should be made at much junior levels are being referred to the CM's office for approval."

No wonder, industry leaders are disillusioned. "I have met the CM [Akhilesh Yadav, son of Mulayam Singh Yadav] multiple times. We meet him, discuss our issues and then there is no movement," says a senior manager at a sugar company. A top industrialist, who wished to remain anonymous, says "it is next to impossible" to do business in the state. "Over the past two decades the state has not focused on development. You

go to Maharashtra or Gujarat and you will find a different picture since the governments there are development-oriented," he says.

What exacerbates the problem is that successive governments discontinue policies made by previous governments. For instance, the SP government in 2004 announced a policy to encourage sugar mills, promising them several fiscal incentives. The next government, led by Mayawati, scrapped the policy even though sugar companies such as Balrampur Chini Mills, Bajaj Hindustan and Triveni Engineering had added ca-



A broken irrigation canal in Bundelkhand. The state is a major producer of food grains. But in the case of the more remunerative commercial crops, it ranked 13 in 2009/10. About a fourth of the cultivable area is under commercial crops, compared with more than a third for India.

pacities to take advantage of the sops.

Abinash Verma, Director General of the Indian Sugar Mills Association, says cane pricing is a political issue in UP and does not take into account the returns mills make on sugar. He adds that other major sugar producers like Maharashtra and Karnataka have enacted laws to link cane price with that of sugar. Kushagra Bajaj, Vice Chairman and Joint Managing Director of Bajaj Hindusthan, the biggest sugar maker in the state as also in India, says the state government will have to take many proactive measures over the next 10 to 15 years to earn industry's trust and attract investments.

Industry contributes about a fifth to the state economy. But, between

1991 and 2010 the state received investment proposals from industrial projects that accounted for barely six to seven per cent of the total proposed industrial investment in the country. Moreover, only a third of the total proposed investment of ₹2,25,552 crore materialised, official data show. The investment pattern has also been highly skewed, with the western region attracting more than half the total funds and the central and eastern regions lagging far behind.

A case in point is the decline of Kanpur. Once known as Manchester of the East, Kanpur has lost its status as one of the most industrialised cities in the country. Of the hundreds of textile mills that made Kanpur an industrial town, barely a few are still

functional. "Mill owners did not invest in upgradation of their machinery and slowly became obsolete. Moreover, trade unions resisted modernisation," says A.K. Singh, Professor at Lucknow's Giri Institute of Development Studies. Another example is Noida, near Delhi, which is often cited as a success story by the Uttar Pradesh government. In 2010/11, 319 factories shut operations in the city where poor law and order and power supply are the main issues. "Roads are much better in Noida than Gurgaon in Haryana. Yet, companies still prefer Gurgaon because of the law and order situation," says Kashyap of MART.

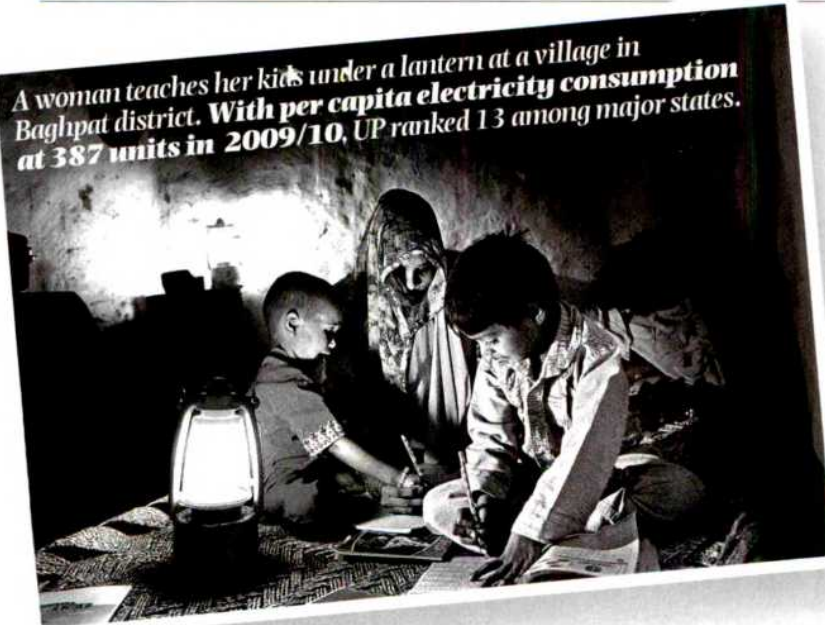
The state administration insists industry is high on its priority. Alok

"Amethi is one of the top 10 backward districts in Uttar Pradesh. Same promises have been made generation after generation"

Smriti Irani, BJP candidate from Amethi



SANJAY SONKAR



A woman teaches her kids under a lantern at a village in Baghpat district. With per capita electricity consumption at 387 units in 2009/10, UP ranked 13 among major states.

Ranjan, Infrastructure and Industrial Development Commissioner, says the state is reaching out to businesses who want to invest more than ₹100 crore. "We are asking businesses what they want. We are happy to discuss and resolve issues on a case to case basis," he says. Ranjan adds that the state has received ₹8,250 crore of investment proposals in the last one month. Ranjan says the state government is planning to set up a single-window clearance system for industry. The government is also working to improve power supply, attract global investors and formulate policies to encourage electronics and food processing sectors, he adds.

The efforts have yet to bear fruit. State government data show that, of the 50-odd projects promised and cleared in 2014, work hasn't begun on nearly 40 projects. Also, large companies such as Reliance Industries, PepsiCo and Indo Gulf Fertilizers, which signed pacts last year to set up projects in the state, have either yet to begin work or have shelved their plans. In contrast, Bihar – a relatively poor state that has 40 Lok Sabha seats – set up a single-window clearance system in 2006, and a June 2009 World Bank report rated Patna as the second-best city in India to start business after Delhi.

Meanwhile, in Amethi, BJP's Irani and Kumar Vishwas, the Arvind Kejriwal-led Aam Aadmi Party's candidate, are exhorting people to throw out the Gandhi dynasty and vote for development. "Amethi is one of the top 10 backward districts in Uttar Pradesh. Same promises have been made generation

"We will revive sick units and open businesses which can employ the local youth... There are no jobs in this area"

Kumar Vishwas,
AAP candidate from Amethi



after generation," says Irani. Vishwas promises to create jobs. "We will revive sick units and open businesses which can employ the local youth... There are no jobs in this area. There is a class of beneficiaries the Congress has built," he says.

In his defence, Rahul Gandhi blames the state government for the lack of development. "The responsibility of roads, electricity and schools lies with the state government. The central government has built national highways and we have done a good job... In UP we don't have a Congress government and this affects the people of the state and that is the reality we have to accept," he said in a TV interview with *Headlines Today*, part of the India Today Group that publishes *Business Today*.

Is the electorate prepared to ignore narrow considerations of dynasty, caste, and religion, and instead put development issues at the forefront? Perhaps not.

Renu Singh, 35, a resident of Attawa village, says her fourteen-year-old son tells her to vote for BJP, which has promised development as its main agenda. Veerganj farmer and Congress supporter Ram Prasad, 55, says he will vote for a party that waives his ₹6,000 farm loan. Arjun Yadav, 39, moved to Lucknow from Amethi about three years ago for better opportunities and education for his children, but remains a Gandhi family loyalist. Sonia Gandhi is Amethi's daughter-in-law and he would again vote for Rahul, he says and talks about a hand pump that the Gandhis gave his family in 2002.

"The aura of the Gandhis will take time to fade away," sums up Pradhan, the journalist. "I give it two more elections for development to take precedence over everything else in Uttar Pradesh." That's bad news for the state. ♦

WITH INPUTS FROM AJAY MODI

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GUNS AND ROSES

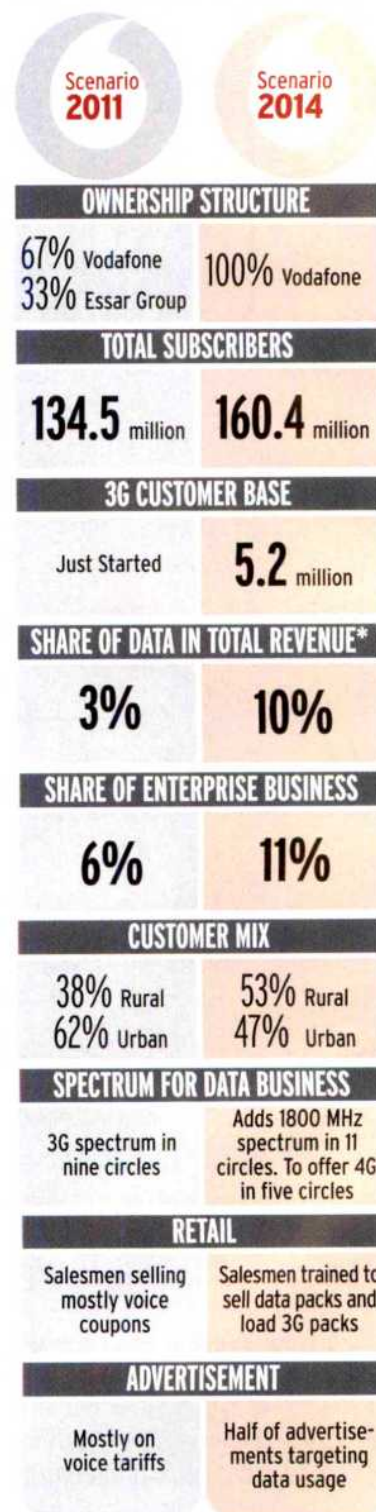
Marten Pieters overcame the trauma of a terrorist attack to steer Vodafone India into profits. Now he seeks glory in data with a \$3 billion gambit, says Sunny Sen

Two friends, in dire need of money, abduct the spoiled daughter of a wealthy businessman. Their best-laid plans come undone when the father refuses to give a penny and the daughter turns out to be very different from your usual covering kidnap victim. This, in a nutshell, is the plot of the 1987 Marathi movie *Gammat Jammatt* – a colloquial expression for fun and games.

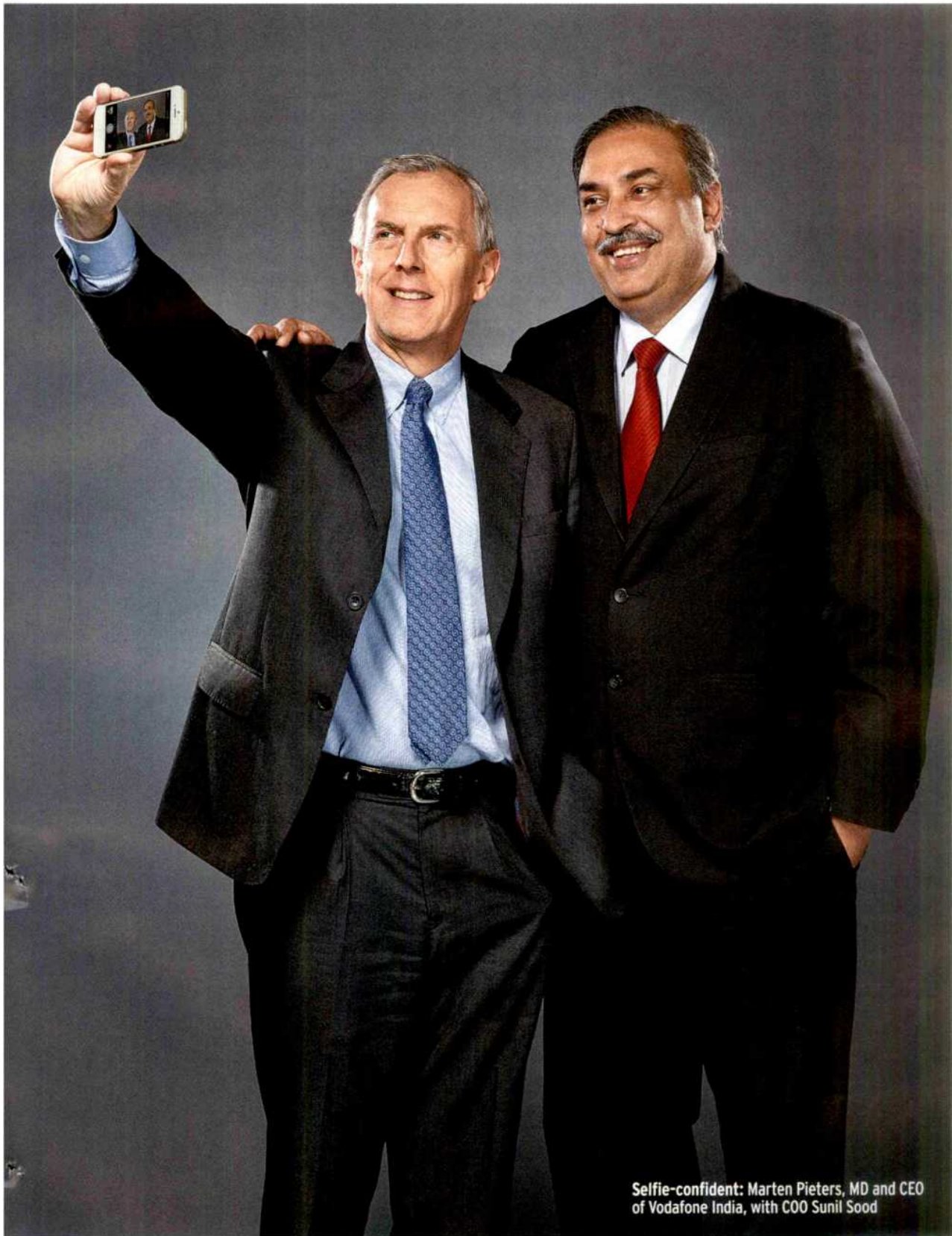
At that time, Marten Pieters, who studied law and economics at the University of Groningen in the Netherlands, was working with Royal Smilde Food NV. He might have thought you crazy had you told him that one day he would be running a mobile telephony company in far away India (he had to be pulled out of a sabbatical for the job). And he may have called for security had you told him that *Gammat Jammatt* would be a critical piece in his plans to transform that company from a predominantly

THE BIG OVERHAUL

Vodafone's product, customer and service mix has changed in the past three years



*Rounded to units place; Source: BT Research



Selfie-confident: Marten Pieters, MD and CEO of Vodafone India, with COO Sunil Sood

RACHIT GOSWAMI/WWW.INDIA TODAY IMAGES.COM

“There is overcapacity in the market. So how we want to approach, which segment we want to approach is a work in progress”

NAVEEN CHOPRA
Director, Vodafone
Business Services

voice carrier into a serious data driver, and from a mainly urban operation into one that covers vast swathes of rural areas. (The second part is where *Gammatt Jammatt* comes in, but we will get there in a bit).

Fuelling this change is a war chest of \$3 billion to be spent over three years. That makes India the global behemoth's most important market after Germany and Italy. (Both will get a little more money than India, but the amount hasn't been disclosed.)

“Vodafone is clearly able to invest in the Indian market, and I think we will need huge investments in the coming five to 10 years,” says Pieters, 61.

Cash is no problem. Global head Vittorio Colao recently completed the deal of the decade by selling Vodafone's 45 per cent in Verizon Wireless, the biggest mobile company in the United States, for \$130 billion. Of that, \$82.5 billion is being paid to shareholders and spent

on consolidating holdings.

The echoes were felt in India on April 10, the day Vodafone took its holding in the Indian arm to 100 per cent by buying Ajay Piramal's 10.97 per cent stake for ₹8,900 crore and Analjit Singh's 24.65 per cent holding for ₹1,241 crore. That's a valuation of ₹81,000

crore for the Indian arm, up 50 per cent in 32 months.

“In the next few years India will be the second-largest company inside Vodafone Group after Germany,” Colao had said at a media roundtable on a visit to India last December. It is already the third-largest, behind the UK. It is also the largest wholly-owned multinational unit in India, and the second-largest mobile phone operator here after Bharti Airtel.

“When I joined [the India unit], it was already the most competitive market in the world, with the lowest pricing. And it got worse after that. But I have been long in telecom. Can't say I have seen all, but I have seen a lot,” says Pieters.

Part of the “a lot” includes gunfire.

Losing Sleep

Pieters was having dinner with wife Dettha at Souk, the rooftop restaurant at Taj Mahal Palace Hotel in Mumbai, late in 2008. The offer to head the Indian unit was on the table and he was looking around the country to make up his mind. Suddenly, crunching sounds of incessant gunfire rent the air. The 26/11 attacks had started. The couple survived unscathed, but only physically.



NISHIKANT GAMBRE/www.indiatodayimages.com

"My wife had quite a problem for some time. I had my own problems, from nightmares to sleeplessness at night. It is not something you shake off easily."

They did, however. Pieters took up the job in 2009 and landed straight into a situation that was less insalubrious than the one he and his wife had encountered the previous year, but not by much.

In 2007, when Vodafone acquired Hutchison Essar to tee off in India, it would have been treading gingerly despite the \$10.9 billion payment. Its investments in Turkey and Ghana had not proved very successful. And India looked like going the same way, posting an adjusted loss (the total loss borne by the insurer or the company while settling a claim) of ₹270 crore in 2008/09.

It took two years for Pieters to turn the tide, with an adjusted profit of ₹106.5 crore in 2010/11. "I make my own mandate, and it was to show the group that it could compete in emerging markets. At that moment there was a lot of disbelief among investors that Vodafone was the right company to go into emerging markets." India was the one emerging market drawing the biggest financial bet from the company and Vodafone now has more than five times the subscribers it had at the time of its entry.

The financial and operational resuscitation gave the company the fortitude to deal with regulatory trouble. The Hutch deal dragged it into a tax dispute that simmers to this day. Pieters says it must be resolved as early as possible, but adds that it has not damped the company's enthusiasm for the country.

A New Song

If Pieters put the company on track then, his ZooZos heralded another change last year. As the 2013 edition of the Indian Premier League kicked off, Vodafone's ZooZos – they are never far from the T20 tournament – began humming a new tune. The white-body-suit-wearing humans sang "Zumi Zumi" as the text asked viewers to share pictures, play videos, and listen to songs on their mobile phones. They could just as well be humming "data-data".

BUSINESS SNAPSHOT

Where Vodafone India stands

Investment till date*

₹64,800 crore

Contribution to exchequer
(including 3G Spectrum Fee)

₹71,000 crore

Total Employment Generated

100,000 people

Prepaid Customers

150.3 million

Postpaid Customers

10.1 million

Avg Revenue Per User

₹199

Data Subscribers

45.7 million

Exclusive Retail Stores

8,000

Total Retail Points

1.67 million

Future Investments
Project Spring
(digitising network)

₹7,800 crore

February 2014
Spectrum Auction

₹19,600 crore

Source: Company

*Doesn't include the ₹44,000 crore spent on acquiring Hutch Essar

In February this year, Vodafone let its cash do the singing. In the auctions that month, it agreed to pay ₹8,318 crore for airwaves that enable the high-speed, data-heavy fourth-generation (4G) services. That money, for 11 of the 22 circles on offer, was in addition to the ₹11,282 crore spent on the old-world, 2G spectrum.

That gives the company a very different complexion from its 2010 version, when it refused to touch the 4G spectrum in auctions that year and stuck to 3G spectrum, spending ₹11,618 crore on it. That year, Airtel spent ₹3,314 crore on acquiring 4G spectrum, and Reliance Jio, which, like all things owned by Mukesh Ambani, would have ambitions to be the biggest, ₹12,848 crore.

This year again Airtel spent ₹9,906 crore on 4G spectrum and Reliance Jio ₹11,064 crore. But Vodafone is now very much in the data mix, especially because it is a race that has barely begun. Reliance Jio has not yet started its service. Airtel has less than 10,000 4G customers. "The data revolution has not yet started in India. A company's future will depend on how well they can embrace the data game," says Hemant Joshi, Partner at Deloitte Haskins & Sells.

Already, Vodafone India's data revenue, as a percentage of total, has increased from three per cent to nine per cent in three years. Airtel's is up from five to 10.3 per cent. Data users now comprise 28.5 per cent of Vodafone's subscribers, up from 20 per cent in the middle of 2012. (See *Playing Catch-up*.)

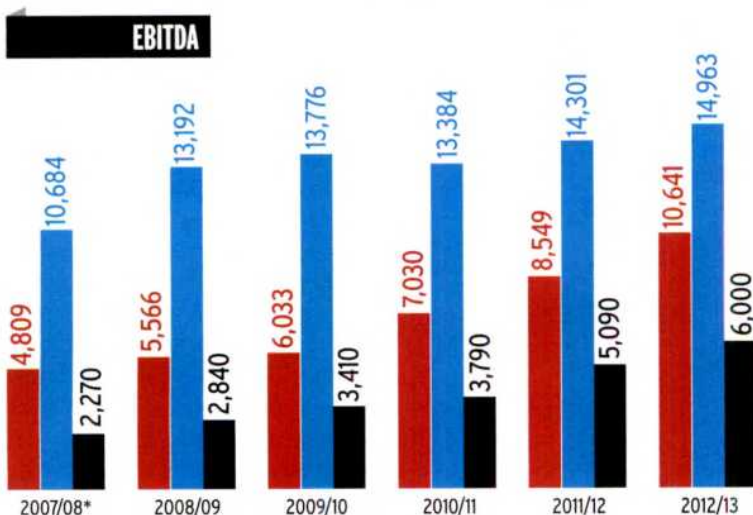
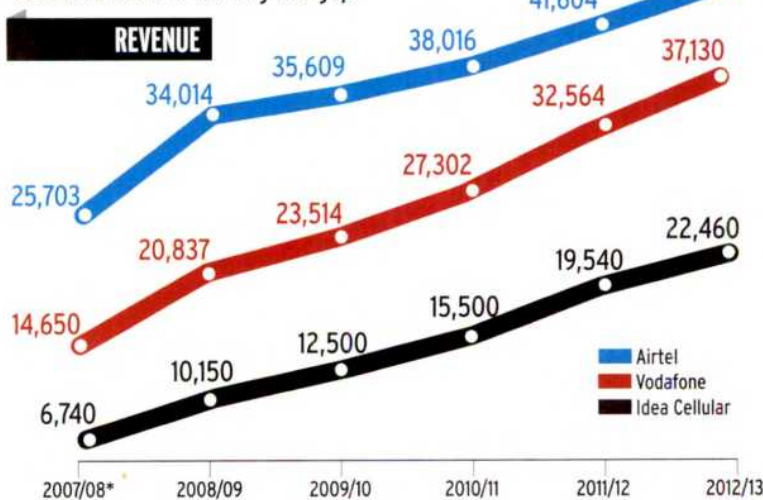
"Competition in data is far more complex (compared to voice). The canvas is much larger in terms of user behaviour and consumer preferences, which requires a lot more understanding of the consumer," says Sashi Shankar, Chief Marketing Officer at Idea Cellular.

There is a reason everyone loves data users, even though their typical monthly usage is ₹100, compared to ₹200 for those who use only voice and SMS. However, the profit margin in data is about 50 per cent more.

"The data market is underserved. There is more demand than supply. We

PLAYING CATCH-UP

Bharti Airtel is still ahead but Vodafone India is closing the gap



*Vodafone numbers are for only 11 months

Figures in ₹ crore

Source: Companies

DATA BUSINESS

BHARTI AIRTEL
Data customers
3G customers
Average data ARPU

DECEMBER 2012

41.5 million
5.2 million
₹47

DECEMBER 2013

54.4 million
9.5 million
₹75

IDEA CELLULAR
Data customers
3G customers*
Average data ARPU

21.7 million
4.1 million
₹52

25.5 million
8.7 million
₹91

VODAFONE INDIA
Data customers
3G customers
Average data ARPU
Source: Companies

37.3 million
2.5 million
₹53

45.7 million
5.2 million
₹67

*Includes voice subscribers on 3G

can't build networks fast enough," says Pieters.

The war chest will change things. A third of the \$3 billion will change most of Vodafone's analogue network to Internet-protocol for better data connectivity. This will not be limited to the big cities, and that takes us back to *Gammat Jammatt*.

Putting Smart in Phones

Laal Dukaan, the red shop, is how they refer to Vodafone shops in villages. These are adorned with big, red sign boards and often have a large, red umbrella in front. As many as 5,100 of these have been set up in villages in the last seven years, and have become a familiar sight in rural areas, more so because they are run by residents of the villages, inducted under a "Son of the Soil" programme. Last year, though, this comfortable familiarity with the brand was shaken by a flood of red.

Eight sales executives of the company, clad in red T-shirts and caps descended on 118 villages in Maharashtra and Goa. They accosted 120,000 mobile phone users, young and old alike. It so happened that a large number of them owned smartphones but did not use them for data, only voice.

They were cajoled into sessions in school classrooms (with the school principal's blessings), chaupals, and other places where people gather when they are not fretting over the daily bread. They were shown how to use their phones to improve, as Vodafone would put it, their quality of life. The early hooks were the catchiest: cricket, Bollywood, and jokes. Gradually, as the engagement increased, information related to farming and weather, email, videos, and social media crept in. Street plays were staged to demonstrate the mobile phone miracle. A special data pack was introduced for ₹32. It gave ₹10 worth of talk time, the rest fetched 200 MB of Internet surfing.

Soon, colourful rangolis began to be drawn with the letters *Gammat Jammatt* in the centre. That was the name given to the initiative by Milind Bade, former

head of marketing in Maharashtra and Goa, who thought the Marathi comedy, a monster hit, would strike a chord.

However, despite the name, *Gammat Jammatt* is not merely fun and games.

Data Minding

Vodafone now has 23.5 per cent of the rural mobile phone users. Airtel is marginally ahead, with a single percentage point more. However, rural customers comprise 53 per cent of Vodafone's 160 million customers, up 10 times since Hutchison Essar went out of the picture. For Airtel it is 44 per cent. Buoyed by the rise of the rural, Vodafone has the second-largest number of 3G users after Airtel.

Airtel was the first to spot the data opportunity. But Vodafone is no longer demurring. "In my discussions with Gopal [Vittal, Airtel's India head] and Marten Pieters, they are looking at increasing their data growth," says Chakrapani G.K., head of consumer and channels group at Microsoft India.

Bharti is expanding its 3G business and has launched 4G services in a few areas. Idea Cellular has rolled out a new brand campaign that asks subscribers to use mobile Internet to avoid getting deceived, and has also shown interest in 4G. Both, says Goldman Sachs analyst Sachin Salgaonkar in a recent report, may lose market share to Vodafone if it makes aggressive investments. "Airtel and Idea are slow in making incremental data investments."

It may have more to do than just money. Two years ago, when 3G services began to become popular, Pieters created a new position of chief commercial officer and hired Vivek Mathur from Pizza Express to integrate customer service, experience and distribution.

Mathur says the integration helps the company understand customers better. Vodafone launched unlimited data plans and started giving free

data packs with Samsung smartphones for two months. The next step was to convert pay-as-per-use customers into data pack users.

Once customers start using packs, they end up paying three times more than pay-as-you-go users. Mathur created weekly, fortnightly and monthly packs as well as campus packs for students, and a trial pack of ₹25 for non-Internet us-

"Data is the biggest driver of ARPU (average revenue per user) growth, because data is growing upward of 70 per cent"

VIVEK MATHUR
Chief Commercial Officer,
Vodafone India

ers. A fourth of Vodafone's 46 million data users now use these packs.

The company's technology team tracks new 3G-enabled handsets that get added to its network.

Customer care executives then call users to upgrade them from 2G to 3G.

Half the 3G devices on the network now use 3G. Vodafone now has 5.2 million 3G users, compared to 9.5 million for Airtel and 8.7 million for



RACHIT GOSWAMI/www.indiatodayimages.com

Idea. Mathur expects his number to double in a year.

That is easier said than done. Vodafone does not have enough spectrum to offer 3G or 4G services in all of India. It has 3G spectrum in only nine service areas and 4G in 11. These include the biggest data markets of Delhi and Mumbai, but that is also out of sync with its *Gammat Jammatt*-driven, rural campaign. Bharti is clearly stronger in data services and has an early-mover advantage in 4G.

"Data will drive success for the larger players. We have the largest 3G network. In voice we compete with eight different players... In data the competition is with Idea and Vodafone," says Srinivas Gopalan, Head of Consumer Business at Airtel.

Airtel, just like Vodafone and Idea, will however have to contend with the unknown.

The Known Unknown

Mukesh Ambani's Reliance Industries bought Infotel Broadband in 2010 for ₹12,500 crore, after it became the only player to acquire 4G spectrum, and renamed it Reliance Jio Infocomm. He is spending ₹50,000 crore to ₹60,000 crore to launch voice and data services. In February, he strengthened Reliance Jio by winning more and better-quality spectrum for ₹11,000 crore.

Ambani said after the auctions Reliance Jio's 4G would provide digital content and applications using two technologies – FDD-LTE and TDD-LTE – through an integrated system. FDD is short for frequency-division duplexing and TDD is time-division duplexing. The two are standards for

Long Term Evolution (LTE) services – the formal name for 4G.

Still, some industry observers say Vodafone may have a slight edge over its rivals in 4G. While Reliance Jio has yet to

"Competition in data is far more complex. The canvas is much larger in terms of user behaviour and consumer preferences"

SASHI SHANKAR,
Chief Marketing Officer,
Idea Cellular



roll out 4G services four years after the 2010 spectrum auction and Bharti is barely present in Kolkata and Bangalore, Vodafone Group has proven 4G expertise in Australia, Fiji, Greece, Italy, Malta, New Zealand, Portugal, Romania and Spain.

A lot is riding on that ability. The massive investment Vodafone is making in India is part of its global plan to

transform into an emerging-market company from a Europe-centric one. In 2008/09, Europe contributed 72 per cent of Vodafone Group's revenue. India accounted for 6.5 per cent while a few countries in Africa, the Middle East and Asia-Pacific contributed the rest.

This changed as the global recession dragged growth down in developed markets. Europe's gross domestic product grew at an annual rate of less than a per cent in the past five years, while India's expanded at an average 7.5 per cent. Europe contributed 68 per cent to Vodafone's revenue in 2012/13 and India now accounts for nearly 10 per cent.

Call on India

India, however, is not the most profitable market for Vodafone, despite the ₹64,800 crore it has channeled into the country in addition to the ₹44,000 crore paid for the Hutch Essar acquisition. South Africa makes four times as much profit as India for almost the same revenue. This is because competition in South Africa is not as intense as in India and tariffs are higher.

The company also has a successful financial services business in South Africa, which boosts margins.

Pieters, though, is not worried. He says it is not unusual for some countries to earn a disproportionate share of revenue and some others to bring in higher profits. But eventually, India will have to improve profitability. This is where data will play a key role.

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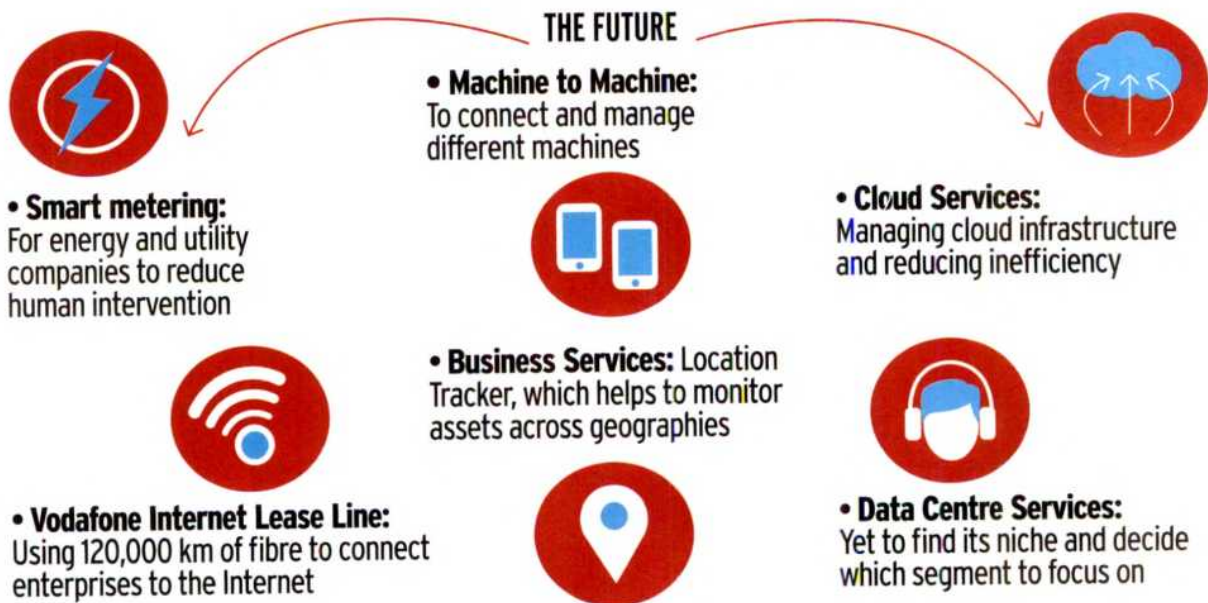
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SPREADING OUT

From vanilla services, Vodafone is getting into more specific offerings for its enterprise clients

OFFERINGS SO FAR: BlackBerry services, Exchange for emails, Mobile connect for Internet tethering, Mobile broadband USB and Mobile Wi-Fi



Vodafone, like Bharti, has entered the financial services space in India with M-Pesa, a mobile-commerce platform which allows money transfer. The thinking is that although less than 20 per cent of India's population has access to banking services, nearly 80 per cent use mobile phones. Vodafone first started M-Pesa in Kenya, where it became a huge success. Also, India has a huge migrant population where people travel from villages to cities for livelihood. Through M-Pesa they can send money to their families in the village. M-Pesa also offers other services such as bill payment and recharge options. Vodafone charges ₹100 for a lifetime subscription to the service.

Pieters has also decided to take a plunge into the enterprise space, dominated by Airtel and Tata Communications. Until a few years ago, Vodafone's enterprise customers only used corporate mobile connections and BlackBerry plans. But Pieters wants to take it into cloud computing, data centre business,

fixed-line services and managed services are the new focus areas. For instance, Vodafone worked with a software company last year that was struggling with rising costs on managing its communication networks as it expanded. Vodafone changed the network architecture by using cloud computing, cutting costs by 20 per cent. Naveen Chopra, Director of Vodafone Business Services, says the company has been able to fully meet service agreements. "We have not faulted for a day since April last year," he says.

In another case, a large beverage company wanted to streamline its distribution system. It sells about 400 million cases of beverages every year, and sales and order data sometimes took up to 50 days to reach the base station. Vodafone's enterprise business team converted all manual tasks into automated processes. This saved the sales team from physically reporting to the plants every day, significantly reducing the time to market. Vodafone also tied up with Mahindra

& Mahindra for powering its Reva electric cars with machine-to-machine communication services that allow users a range of facilities such as remotely locking their car and controlling air conditioning.

The efforts have already started bearing fruit. The share of the enterprise business in Vodafone India's revenue has jumped to 11 per cent from six per cent a few years ago. Chopra, however, is cautious about his division's expansion plans. "There is overcapacity in the market. So how we want to approach, which segment we want to approach is a work in progress," he says, adding that it will take a year and a half to firm up plans.

To Pieters, everything in life is a matter of time. "In a matter of time, we will both be dead," he says, thumping the desk and bursting into a laugh. And you can hear the sound of gunfire fading away in another time zone. ♦

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DESERVING THE

Bandhan

THE
WINNER

NATURE OF BUSINESS
Gives micro loans

CONTRIBUTION TO THE ECONOMY
A sustainable financial inclusion model in a country where 60 per cent of the population is unbanked

PORTFOLIO
97 per cent loans given to small women entrepreneurs doing zari work, selling vegetables, tailoring etc

FINANCIAL PERFORMANCE
Revenue: ₹937.28 crore
Net profit: Not Available

STARTED IN
2001

NO. OF EMPLOYEES
13,010

TOTAL ASSETS
₹6,769 crore

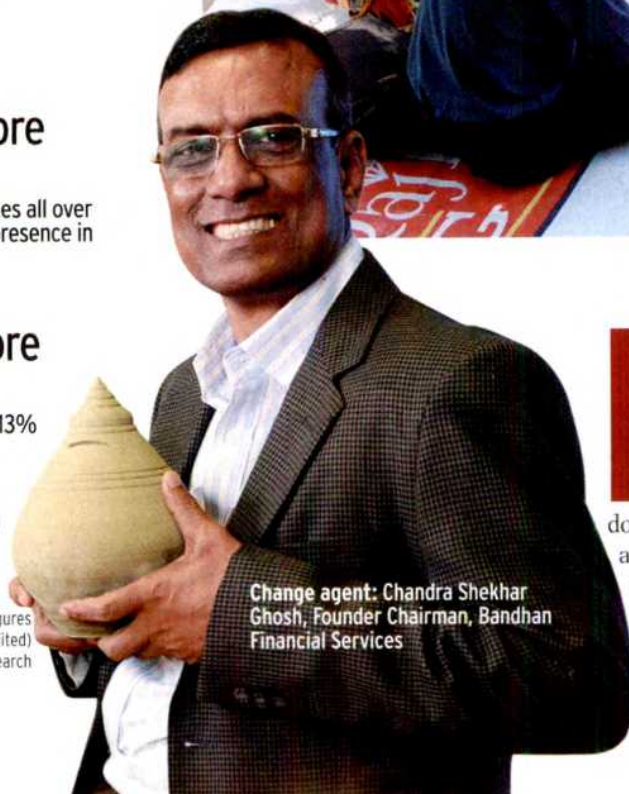
BRANCH NETWORK
2,000 plus branches all over India, but major presence in eastern region

LOANS AND ADVANCES
₹9,199 crore

ASSET QUALITY
NPAs very low, 0.13% of net advances

IMPACT OF SLOWDOWN
None, business is growing

(Assets and loan figures for 2013/14, unaudited)
Source: BT Research



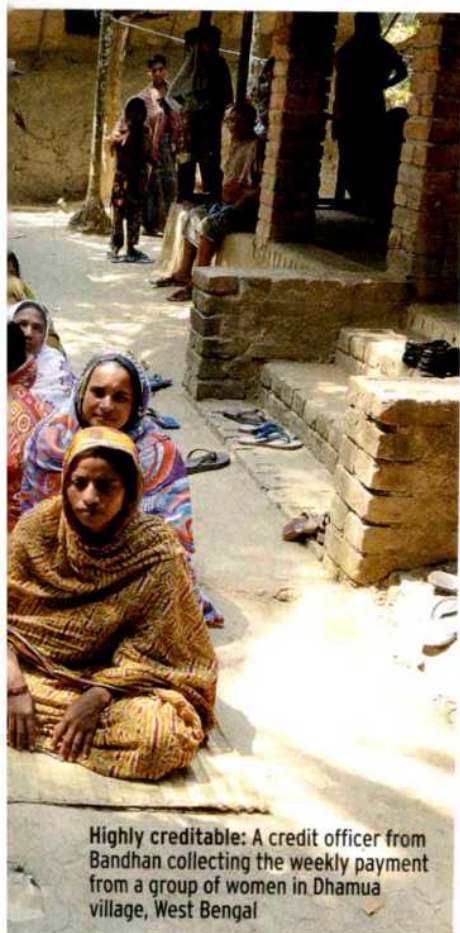
Change agent: Chandra Shekhar Ghosh, Founder Chairman, Bandhan Financial Services

Marufa Laskar, 50, is a zari worker, with four children living in Dhamua village of West Bengal. She also sells readymade children's wear door to door. She is a typical example of the average borrower from Bandhan Financial Services, the Kolkata-headquartered microfinance institution (MFI), which has now been



Such a long journey for Chandra Shekhar Ghosh.
See www.businesstoday.in/ghosh-bandhan

HONOUR



Highly creditable: A credit officer from Bandhan collecting the weekly payment from a group of women in Dhamua village, West Bengal

PHOTOGRAPHS BY SUHR HALDER

How do the winners of the two new banking licences – microfinance lender Bandhan Financial Services and infra institution IDFC Ltd – measure up to the challenges of operating as full-fledged banks?

By ANAND ADHIKARI

banks hardly exist, with bulk of the loans ranging from a minimum of ₹1,000-₹50,000 invested in small businesses such as zari work, tailoring, fish and vegetable selling, running small provision stores and so forth. To turn into a bank it will now have to mobilise low-cost deposits, both savings accounts and current accounts, which will enable it to lower the interest rate on its loans as well. (Currently, Bandhan, like all other MFIs, borrows from banks.) "We are willing to accept even ₹100 as deposit. We will go doorsteps of people to garner deposits," says Chandra Shekhar Ghosh, Bandhan's soft spoken Founder-Chairman. (See interview on page 70.)

Bandhan is startlingly different from the other institution that has also been granted a banking licence – IDFC Ltd. In terms of client profile, management bandwidth and asset size, the two are a study in contrast. What they do have in common – apart from plush, glass-and-steel headquarters – is that IDFC too was created to satisfy another unmet need of growing India: encouraging private sector involvement in infrastructure development. IDFC was formed in 1997, following the

recommendations of an expert group on commercialisation of infrastructure projects chaired by Rakesh Mohan, later RBI deputy governor. Why get into full-scale banking? "IDFC has a very significant footprint in the corporate landscape but we are able to provide only a very narrow class of products (only term loans) to that client base," Rajiv Lall, Executive Chairman, said at a conference call with analysts a year ago. "Converting into a bank opens up the opportunity to serve an existing client base with a range of new products that today go to banks and other institutions."

Why These Two

The choice of Bandhan and IDFC by the RBI as the first two to be granted bank licences among the 26 which had applied, has surprised many. Among those still waiting are biggies such as the Aditya Birla Group, the Reliance ADA Group, the Bajaj Group, the Shriram Group, L&T Finance, Indiabulls and LIC Housing. Why these two? "A question the regulator had been grappling with was how to avoid creating replicas of existing private sector banks," says a person who has been close to the process. In

granted a licence by the Reserve Bank of India to get into full-fledged banking. Laskar borrowed ₹25,000 from Bandhan six months ago, and every Friday a credit officer from Bandhan visits her village to collect her weekly installment repaying it. Laskar has never defaulted.

Bandhan, set up in April 2001, has been helping relatively poor people in areas of the country where

the last two decades, the RBI has cautiously allowed a dozen new banks to emerge, but of the seven which have survived – and whose share of deposits and lending in the entire banking sector is around 15 per cent – most are indeed clones of the banks which already existed, offering the same services. Given their background, Bandhan and IDFC are expected to be different.

The RBI is also undecided about whether granting banking licences to big corporate houses is a desirable step. RBI Governor Raghuram Rajan had said, when earlier he was advisor to Prime Minister Manmohan Singh: "I think the old RBI policy of not allowing corporate banking licences was a good one. I still stand by that." So too his predecessor D. Subbarao had sought changes in the RBI to give it the additional power of superseding the board of a bank if required, in order to protect the interests of depositors, before corporate houses were allowed into the sector. Besides, corporate houses are unlikely to set up banks any different from the existing ones. Some claim the Tata and Videocon groups withdrew their banking licence applications because they anticipated an unfavourable response.

In his 2010 Budget speech that first announced the intention to grant more banking licences, then finance minister – and now President – Pranab Mukherjee had clearly stated that this was being done to extend the geographical coverage of banks and improve access to banking services. Banking penetration is much higher in the south and west of the country than in the north and east – this lowered the chances of the entities from these parts which had applied, the Shriram Group or gold loan company Muthoot Finance, for instance, of getting licences. In contrast, only three banks have their headquarters in eastern India – United Bank of India, UCO Bank and Allahabad Bank, among which UBI is in all kinds of trouble for its reckless lending – which could well have

IDFC



NATURE OF BUSINESS
Infrastructure loans

CONTRIBUTION TO THE ECONOMY
Infrastructure is a big focus area where the government is targeting \$1.1 trillion investment over the next five years

PORTFOLIO
Bulk of loans to sectors like power, telecommunication, power, ports and roads

FINANCIAL PERFORMANCE
Revenue: ₹8,138 crore
Net profit: ₹1,842 crore in 2012/13

STARTED IN
1997

NO. OF EMPLOYEES
586

TOTAL ASSETS
₹71,059 crore

BRANCH NETWORK
Works with infra projects across the country

LOANS AND ADVANCES
₹56,595 crore

ASSET QUALITY
NPAs very low at 0.05% of net advances

IMPACT OF SLOWDOWN
Severely impacted by the economic slowdown



Key player: Rajiv Lall, Executive Chairman, IDFC

worked in favour of Bandhan getting its licence. There are just 54 credit accounts per 1,000 population in eastern India, almost half the average of the rest of country. In Laskar's village Dhanua, for instance, the State Bank of India (SBI) opened its first branch last year, while Bandhan has been there for seven to eight years.

Besides, no established bank will, like Bandhan, loan sums as low as ₹1,000 – which is the amount Laskar first sought in the mid-2000s to invest in her zari work – nor will it do so without seeking collateral, as Bandhan does. "Financial inclusion doesn't mean just opening a bank account, but also providing credit," says Rajeev Arora, Director at FINO PayTech, which has the largest banking correspondent network in the country. For Laskar, the ₹1,000 loan, duly repaid, was followed by a loan of ₹5,000, then ₹8,000 and finally ₹25,000.

The choice of IDFC is more easily explained. It is clearly to help and support the government in meeting its target of getting investments totaling \$1 trillion in the next five years. "IDFC as a pure independent financial institution with management bandwidth was a clear front runner. The two licences actually balance each other out: one is retail oriented, the other is a wholesale banking player," says Abizer Diwanji, Banking and Financial Services Head, at consultancy firm EY, formerly Ernst & Young.

Trust Factor

Bandhan's business model so far has revolved around lending only to groups of women, numbering 10 to 30, in unbanked areas. "This helps recovery if there is a default," says Partha Pratim Samaanta, Deputy General Manager, Bandhan. Money is given solely to support income generating assets like zari

work. This is not the same as lending to women's self-help groups, which some banks also do – in the latter case, all the women have to be engaged in a single business activity. Bandhan's success is mainly because of the trust it inspires. "All financial deals require trust on both sides," says Ghosh, who worked with close to two dozen NGOs before starting Bandhan. "You also need discipline."

Bandhan too initially began as an NGO, but converted to a non-banking finance company (NBFC) in January 2006. It has an asset base of ₹6,769 crore, with a presence in two dozen states including West Bengal, Tripura, Assam, Bihar, Jharkhand, Uttar Pradesh and Maharashtra. It was in 2009 that Ghosh felt the need to further scale up the business. "The issue was how to offer loans at a comparatively low interest rate to people," Ghosh adds. Since Bandhan borrows from banks to lend to its customers, its rates cannot drop beyond a point. Borrowers like Laskar end up paying 22.90 per cent while

bank customers in comparison pay 16-18 per cent on a personal loan. But once it turns into a bank, Bandhan will have its depositors' funds too. "I will be able to offer a lower interest rate if I manage to raise low-cost current and savings accounts (CASA) at five to six per cent as a bank," says Ghosh, 57.

For IDFC, there were two main reasons for converting into a bank. With its entire loan portfolio in the infrastructure sector, it was, given the downturn, facing challenges in raising assets. As a bank it will have a much lower capital adequacy requirement than as an NBFC – nine per cent against 12 per cent. "This will allow IDFC to undertake higher leverage or grow its assets to several times its equity, translating into higher returns in terms of return on equity," says Suruchi Jain, equity analyst at Morningstar India.

Second, IDFC was already competing with banks – banks too fund infrastructure projects – but with the handicap that banks could

charge lower interest. "Risk funding increases for an NBFC once it attains a certain size because of the wholesale nature of the borrowings," says Lall. It was indeed the growing delays in the completion of infrastructure projects – due to the downturn, policy paralysis of the government, environmental concerns and land acquisition problems – that led IDFC to consider turning into a bank. "It was the next logical step as IDFC faced the consequences of concentrated portfolio in a single segment," says Diwanji of EY. IDFC needed a banking platform too because it had diversified into the retail business like mutual fund and needed bank branches to sell these effectively.

Hurdles Ahead

The transition to a bank, however, is not going to be easy. Banks have mandatory obligations – there is priority-sector lending, there is the requirement of rural branches, there is statutory liquidity ratio (SLR) and

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NEW GARB

What IDFC and Bandhan need to do to turn into full fledged banks

Bandhan Financial Services

IDFC Ltd

SLR REQUIREMENT

Will have to set aside 23 per cent of its funds as standing liquidity ratio, invested in govt securities

Will have to do the same. Given its large balance sheet, keeping so much money idle will be tough

PRIORITY SECTOR REQUIREMENT

Already lending solely to the priority sector

Must disburse 40 per cent of its loans to priority sectors like agriculture

DIVERSIFIED PRODUCT BASKET

Already well diversified, but will need to expand its product basket

Loan portfolio heavily focused on infrastructure, will need to scale up loans to other sectors

RISK MANAGEMENT

Operates without collateral which is risky, may need to change

Operates with collateral, has good risk management system in place

DEPOSIT FRANCHISE

Already has over 2,000 branches

Has only four branches, will need to expand fast, a big challenge

ADDITIONAL EXPERTISE REQUIRED

Will need talent to handle treasury management, build more products for rural areas

Will need to build expertise in dealing with sectors other than infrastructure

WILL COMPETE CLOSELY WITH

Other MFIs due to lower cost of capital

Banks that have been doing infrastructure financing

MANAGEMENT BANDWIDTH

Will need to hire expertise

Possesses high-quality management staff already

CAPITAL

₹1,100 crore (RBI's mandated minimum requirement is ₹500 crore)

Well capitalised at ₹1,516 crore

HUMAN RESOURCE CHALLENGE

Many employees are undergraduates, will need more qualified people

Majority of employees are well qualified, have worked for big institutions

cash reserve ratio (CRR) to be maintained which basically means leaving assets idle. Bandhan will have no problems with priority sector lending or rural branches for, as Ghosh points out, its entire portfolio is priority sector compliant while the RBI's requirement is only 40 per cent. "We only need to meet the SLR and CRR requirements," says Ghosh.

Opening more branches will certainly be a major task for IDFC, which currently has only four. It will also have to invest 23 per cent of its funds in government securities under the SLR requirement, which will be a whopping sum given its balance sheet size of ₹71,059 crore. Lall admits the next three years will be spent in achieving compliance, geographical expansion and experimentation. "We are not focused on balance sheet growth in the first three years," Lall says. Profitability will be under pressure as capital goes into opening branches, buying technology and hiring people. Rating agency India Ratings expects IDFC's profitability ratios, especially return on assets and return on equity, to drop sharply in view of the SLR, CRR and other regulatory requirements. (See *New Garb*).

Bandhan is banking on converting its 5.5 million borrowers into savings bank customers. In comparison, HDFC Bank has 18 million retail customers. But this is easier said than done. The trust factor may work for it in the east, but not beyond that. The other challenge will be to diversify the lending from small and unsecured amounts to large amounts against collateral to protect the interest of depositors. Also, Bandhan has to follow strict lending norms; lending will get more complicated than its present one-page loan application form.

The duo has a year and a half's time to set things in order. But a lot of additional responsibility has now descended on them. ♦

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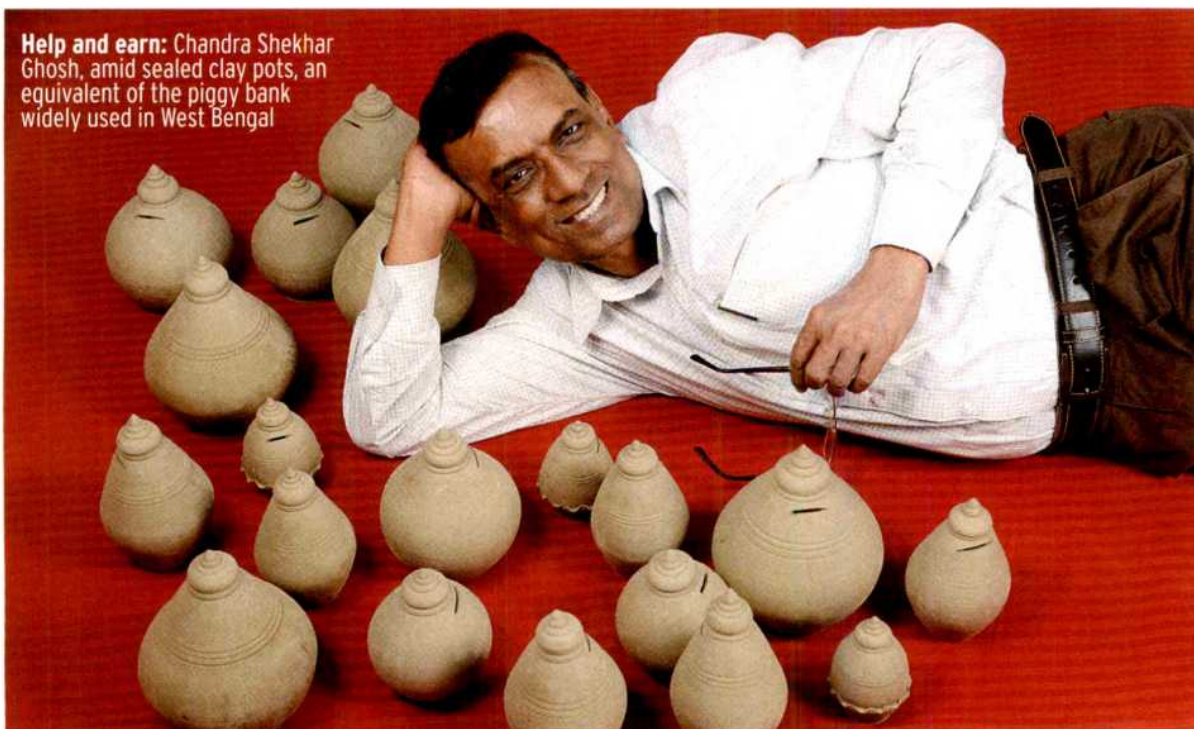
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Help and earn: Chandra Shekhar Ghosh, amid sealed clay pots, an equivalent of the piggy bank widely used in West Bengal



Chandra Shekhar Ghosh gave up a steady job at BRAC, the well-known Bangladesh-based NGO, to start his own which later metamorphosed into Bandhan Financial Services.

He started with just ₹2 lakh and two employees. No one around him believed he would succeed, but he was not deterred. "I relied solely on my own confidence," he says. When established banks turned him away, he borrowed from moneylenders. Today, he occupies a swanky office in Kolkata's Salt Lake area. He spoke to Anand Adhikari. Edited excerpts:

How did you transform Bandhan from an NGO to a non-banking finance company?

As an NGO, our only source of funds was donors' money. In 2005/06, we converted ourselves into an NBFC. India is a big country and we also had big plans. I wanted to scale up my operations. Scaling up has two kinds of impact – first, the cost of operations comes down. Second, until I reach a large number of people, I make no impact on the community. So, these factors encouraged me to

"WE'RE WILLING TO ACCEPT EVEN ₹100 AS DEPOSIT. WE'LL GO TO THE DOORSTEP OF PEOPLE TO GARNER DEPOSITS"

go for an NBFC model. We also needed more money to reach out to more people. Banks are also happier funding an entity if it is an NBFC. In fact, we were functioning as an NBFC even though we were an NGO.

When did you feel you wanted to turn into a bank, and why?

In 2009, I felt the need to scale up. The unbanked population in India is still 60 per cent. Banks also have limitations in giving loans to poor. The issue was how I can give loans at a comparatively low interest rate. Our borrowing rate (from banks) was high, so we were passing it on to the customers. If we get the opportunity to access low-cost deposits, our cost of funds would also come down and I could pass the benefit on to the customers.

Why don't existing banks do this?

Existing banks have other skills. They are tapping customers at the top of the pyramid. It will take them time to come from the top of the pyramid (large corporate houses) to the bottom of the pyramid.

Your expertise lies in lending. How do you plan to build a deposit franchise which requires different skills and probably different markets?

We have 5.5 million borrowers as customers. We can easily convert them into deposit account holders. There is no bank which has 5.5 million customers from day one of commencing business. Secondly, we are working within a community which knows us. We are very transparent in our dealings. For example, we hold meetings with borrowers in villages every week. People trust us.

Bankers say rural markets are more of lending markets and large deposits can only be raised in urban areas.

If we want to develop India, we should break the mental blocks in the minds of people. I remember a villager coming to Apollo Hospital and settling a bill of ₹1 lakh in cash. People in villages also have money, but nobody has gone to them to tap it. It's not like you set up a shop and expect customers to come to you. You have to go to them.

PSU banks are already present in rural areas, but people there prefer to deal in cash. People don't use cheques or cards. How do you plan to break this mental block?

Of course, there is some fear in people's minds because of the tax implications (of using cheques and cards). You have to educate them about the advantages of keeping money in a bank. The second part is doorstep banking. We are willing to accept even ₹100 as deposit. We will go to the doorstep of people to garner deposits. The staff should be customer friendly and motivated to work for the benefit of the community.

Will your business model change to become a bank?

We will gradually expand the customer base from women to all types of people. We will do both doorstep as well as branch banking. A customer won't come to your branch to deposit ₹50, when he has to spend another ₹30 on travelling. We can also continue door-to-door instalment collection on a weekly, fortnightly or monthly basis in a banking step up. Our model is a financially viable model. We have already proved it.

How will you fulfill banking regulations relating to collateral, priority sector, SLR, CRR etc?

We will not seek collateral for loans up to a certain amount. But we will ask for collateral after that as per banking rules. We will also do SME and other business loans. Today, our entire portfolio comes under priority-sector lending. We are fully compliant with the RBI's priority sector lending. We only need to meet SLR and CRR requirements. ♦

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TRYING ON NEW HATS

WITH **NAUKRI.COM**, INFO EDGE MADE A DREAM DEBUT ON THE STOCK MARKET. BUT WITH THE DOWNTURN, FOUNDER **SANJEEV BIKHCHANDANI** AND CEO **HITESH OBEROI** ARE BETTING ON OTHER VENTURES. By MANU KAUSHIK

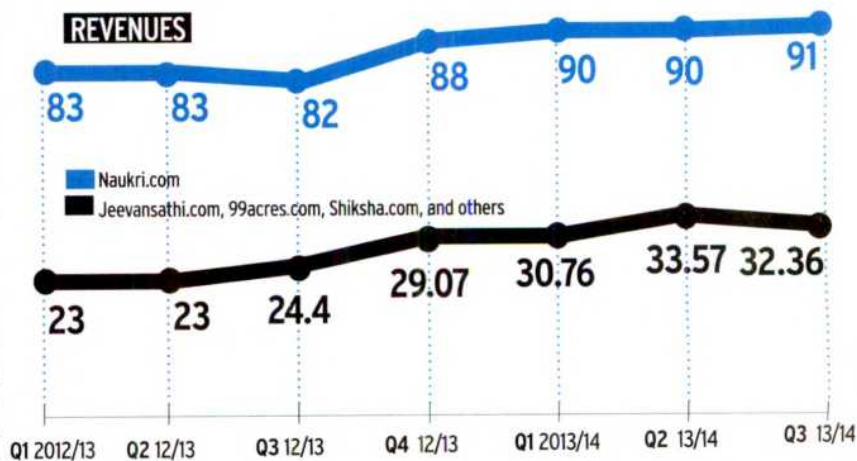
In 2006, when Info Edge India was planning an initial public offering (IPO), its founder Sanjeev Bikhchandani was told by many that the price he was seeking for the shares was way too high. Bikhchandani had fixed this at ₹320 per share, which translated into a trailing price-earning (P/E) multiple of 52.6. A far better established Infosys, in comparison, commanded a P/E of 41.71 at the time. Bikhchandani, however, went ahead.

The market response showed that if anything, Bikhchandani had undervalued his own company. Within about 20 minutes of its listing, Info Edge's stock price touched ₹623.8 apiece before climbing further to ₹1,688 apiece in just over an year, reaching a P/E of 102.2. "I was told that I was being aggressive. It was very hard to predict where the stock would go because we were new to stock markets. But maybe we underpriced it," he says.

But today, eight years later, with Info Edge's price trading at ₹547.85 on April 11 (the company has awarded share bonuses twice), things are very different. The company's

CHANGING MIX

Naukri's revenue has been growing far more slowly than that of Info Edge's other ventures combined



Figures in ₹ crore

Source: BT Research

growth has hit a brick wall, largely due to the economic slowdown, which in turn has badly affected its flagship online recruitment business, Naukri.com.

Hiring is down, and so is Naukri. According to a Manpower India employment outlook survey, the hiring forecast was weakest in India among Asia-Pacific region in the past eight

years in 2013. Naukri growth has been stunted over the past seven quarters – up from ₹83 crore in first quarter of 2012/13 to ₹91 crore in third quarter of 2013/14. Revenues for the first three quarters of 2013/14 are a mere 9.27 per cent higher than that of the corresponding period of 2012/13. (See *Changing Mix*). "The (Naukri) business is not growing as of



**"WITH USER
AWARENESS
INCREASING, THE
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ESTATE IS MOVING
FROM OFFLINE TO
ONLINE"**

**"WHEN GDP COMES
DOWN, SO DOES
EMPLOYMENT GROWTH.
AS THE ECONOMY
BOUNCES BACK, SO
WILL NAUKRI"**

Two is Company: Hitesh Oberoi,
CEO & MD, Info Edge India (left),
and Sanjeev Bikhchandani, Founder
and Executive Vice-Chairman

PHOTOGRAPHS BY SHEKHAR GHOSH

now. When GDP growth comes down, so does employment growth. As the economy bounces back, so will Naukri," says Bikhchandani. Analysts broadly agree. "The naukri (jobs) business is a function of several variables which have not been great for the past few years," says Abhishek Shindadkar, analyst at ICICI Securities.

Naukri's fate has had Info Edge looking for newer avenues of growth. In fact, the company has 14 businesses in all, of which eight are internal and rest, investments in other companies. Among its own businesses are the online real-estate site, 99acres.com, the online matrimonial site, Jeevansathi.com, and the education site, Shiksha.com. Its investments are in digital companies – Zomato, Meritnation, Mydala, PolicyBazaar and Canvera.

Info Edge's second biggest business, with over ₹85 crore in revenues, is 99acres. This company ties up with brokers and developers to list their properties on its site. It already has the largest number of listings among online sites, about 600,000 – its closest competitor MagicBricks has 500,000. Around 15,000 brokers and 3,000 developers are associated with 99acres. The offline real estate advertising market at present is roughly ₹3,000 crore, according to Info Edge sources, while online is around ₹250 crore, or less than 10 per cent. "But with user awareness increasing, the market is moving from offline to online. The task is to take this 10 per cent to 30-40 per cent in the next few years," says

FALL AND RISE

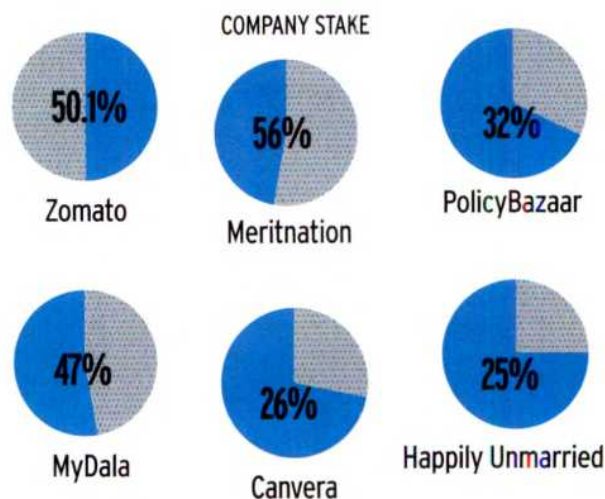
The Info Edge stock fell steeply during the middle of last year, but has since been inching upwards again



Source: NSE

SPREADING WEB

Info Edge's stake in other internet companies



Source: Company

Hitesh Oberoi, CEO and Managing Director, Info Edge. Oberoi took over from Bikhchandani about four years ago so the latter could concentrate on external investments.

99acres has adopted a five-fold strategy: increase the number of property listings on its site along with quality data, invest heavily in products and technology, increase branding and promotion, focus on mobile, and above all, expand the sales teams' outreach. Here, Bikhchandani is trying to replicate Naukri's success model. In its initial years, Naukri was highly sales-driven, with a large sales staff in around 20 major cities which

aggressively wooed recruitment consultants and headhunters, explaining to them the benefits of online – as against conventional offline – recruitment: lower costs, wider reach. They often helped consultants set up their IT infrastructure. 99acres is going the same way, with a staff strength of 800 of which more than 500 are in sales. "In the past two years, we have doubled our 99acres staff," says Oberoi.

But competition is intensifying in the real estate business, especially with the entry of two new players with innovative products: Commonfloor and Housing.com. Housing, for instance, is offering a property verification service which has become an instant hit with end users. But its size gives 99acres an advantage. "One of the secrets of Naukri's success was that it always has the most number of jobs. And if you have that, you will get the most traffic," says Bikhchandani.

The focus on mobile can be seen in the mobile app 99acres launched last month, three years after introducing a mobile-only website. Its current traffic share from mobile is 24 per cent. "There's fair bit of evangelisation that needs to be done with brokers," says Bikhchandani. "As we go down the broker value chain, we find that there are some who are not computer-savvy. But with smartphones proliferating and our app being put up, we are in an advantageous position."

Unlike Naukri and 99acres, which are in the forefront of their respective segments, matrimony site Jeevansathi.com is at No. 3, behind



BharatMatrimony and Shaadi.com. As at other such sites, registration is free, but to contact others who are also registered, paid membership is required. The company is trying hard to increase the conversion rate – from free to paid, and currently at 10 per cent – to turn profitable. Since this is a person-to-person affair with minimal interference from the sales team, the conversion rate is low. “We are planning to take the conversion rate to 12-14 per cent through predictive analysis,” says Bikhchandani. “Once we do that, we will start making money.”

Shiksha.com, which provides online education information, makes money through listings and generating leads for educational institutions. “The idea behind Shiksha is the same as 99acres,” says Oberoi. “Education is the second largest advertising category in print after real estate, some ₹2,000 crore. Info Edge wants to capture this market.”

Among the companies Info Edge has invested in (see *Spreading Web*), online restaurant guide Zomato.com remains the most promising bet. Info Edge has put in ₹143 crore in five rounds, the most recent tranche in last November when Zomato was valued at ₹1,000 crore. Bikhchandani says the thought of investing in other companies came to him around 2008 as the core business was generating plenty of cash. “We were already in four verticals – jobs, matrimony, education and realty. We didn’t want to run a fifth internally because we wanted to get at least one of the businesses right (apart from Naukri). At the same time, there are opportunities out there,” Oberoi adds.

Still, among all the businesses of Info Edge, including the investee companies, only Naukri is profitable so far. It is generating all the cash that is funding the other businesses. Analysts, however, agree that the focus on the non-employment companies is the right track. According to an Ambit Capital report, *Overblown Hopes*, published this January, “the



Competitor: Vivek Madhukar, COO, Times Business Solutions

“THE GROWTH RATE IN THE PROPERTY BUSINESS HAS SLOWED OF LATE. TRANSACTIONS HAVE FALLEN DUE TO MARKET CONDITIONS”

standalone non-recruitment business (of Info Edge) has increased by more than 30 per cent year-on-year in each of the last six quarters, particularly led by 99acres. We expect continued growth momentum... Info Edge will need to increase its investment in the businesses to maintain its market share.”

While Oberoi holds the fort, Bikhchandani today is entirely focused on external investments, meeting two or three company heads almost every day. He has met close to 400 of them to make his nine investments so far. Three of them, worth ₹35.6 crore, did not turn out well and Info Edge has written them off. “Six out of nine is a pretty good hit rate in the venture capital business. All six are not successes yet, but it looks like they are moving in the right direction,” says Bikhchandani.

What sort of future does he see? Bikhchandani says five years from now he wants to see four or five of his businesses – either owned fully or substantially – to have a billion-dollar market capital each if they were to list on the stock exchange.

It seems like a tall order because

Info Edge itself is currently valued at just over \$1 billion. Rivals certainly have a very different view. “Growth rate in the property business has slowed of late. Transactions have fallen due to market conditions,” says Vivek Madhukar, COO, Times Business Solutions, a direct competitor to Info Edge in the recruitment (TimesJobs), real estate (MagicBricks) and matrimony (SimplyMarry) segments. In the matrimonial category, which is already stitched up between BharatMatrimony and Shaadi, Madhukar adds: “It will be very difficult for a third player to break into that league without a highly differentiated product.”

Saurabh Mukherjea, CEO, Institutional Equities at Ambit Capital says Info Edge has done a good job of investing its money – around ₹450 crore – judiciously. But he has some reservations too. “Zomato is a market leader but tomorrow, if a global giant like TripAdvisor focuses on the Indian restaurant business, Zomato will struggle. Besides, apart from 99acres and Zomato, success stories will be difficult to find,” he says. ♦

@manukaushik

THE UNIQUE FRAGRANCE OF DARSHAN PATEL

SHALESH RAVAL/www.indiatodayimages.com

"I WORRY ABOUT THE HEALTH OF MY
OWN BRANDS AND THEIR ABILITY TO
MEET A NEED"

Scent of a man: Darshan Patel,
promoter, Vini Cosmetics

HIS PRODUCTS ARE DIFFERENT, AS IS HIS NO-HOLDS-BARRED MARKETING STYLE.

By SHAMNI PANDE

Watch out for the deodorant wars this summer," says Devendra Chawla, CEO, Food Bazaar. He should know – the supermarket chain retails over 60 deodorant brands. Here, Chawla is referring to fragrance promotions at his outlets. He is gearing up for counter marketing moves from several multinationals to check the rapidly expanding footprint of Vini Cosmetics. Some deft marketing by the company of its products – Fogg and 18+ – has helped it penetrate the market. Already Fogg is among the top selling deodorant brands in the country.

Darshan Patel, the promoter of Vini Cosmetics, appears matter-of-fact about his recent success. Sitting in his Ahmedabad office, dressed in his trademark white shirt and trousers, he explains how he came up with a winning strategy for Fogg. At the launch of 18+ in July 2011, his first deodorant, Patel asked everyone for feedback. "People said it smelt good, the pricing was fine but one feedback kept surfacing that 'deodorants get over fast'," he says. He decided to address that concern of consumers by launching Fogg, a product without gas. This prevents the liquid from vapourising easily, checks its wastage and makes a deodorant bottle last longer. Fogg was thus launched in end-2011 with the tagline *Bina gas wala spray* (deodorant without gas). The market response was overwhelming. Media reports, quoting

Nielsen data, have said that Fogg is now the leader in the ₹2,000 crore deodorant market with a 12 per cent share.

Vini Cosmetics was launched by Patel after he sold his one-third stake in Paras Pharma to private equity (PE) company Actis for \$43 million in 2006. "I was just 44 years old then, and who wants to be unemployed," he says. Indeed, Patel had already built a formidable reputation for being a market disruptor with some of the over-the-counter brands he built for Paras, including Krack cream, Itch Guard, Set Wet, Dermicool and Livon. "My ability to seize the consumer pulse was proven. So, I decided to do what I knew best," he says.

Patel spent four years in product development and building a network of distributors for his new company. Vini was formally launched in 2010 and soon unveiled 18+ and Jinjola (cooling talcum powder). But it is Fogg, its second deodorant, that has been its most successful product.

Market observers point out the rapid strides made by the brand. "Fogg is among the top three brands of more than 60 brands that retail at Food Bazaar outlets," says Chawla of Food Bazaar. The top three, not necessarily in the order listed here, are Axe, Wild Stone and Fogg. Wild Stone is owned by Kolkata-based McNroe Chemicals in partnership with Future Brands – a brand consultancy division of Future Group.

Pricing Power

Chawla says that the deodorant category was beginning to lose pricing power but the success of Fogg is changing

SNIFFING SUCCESS Darshan Patel's rapid rise

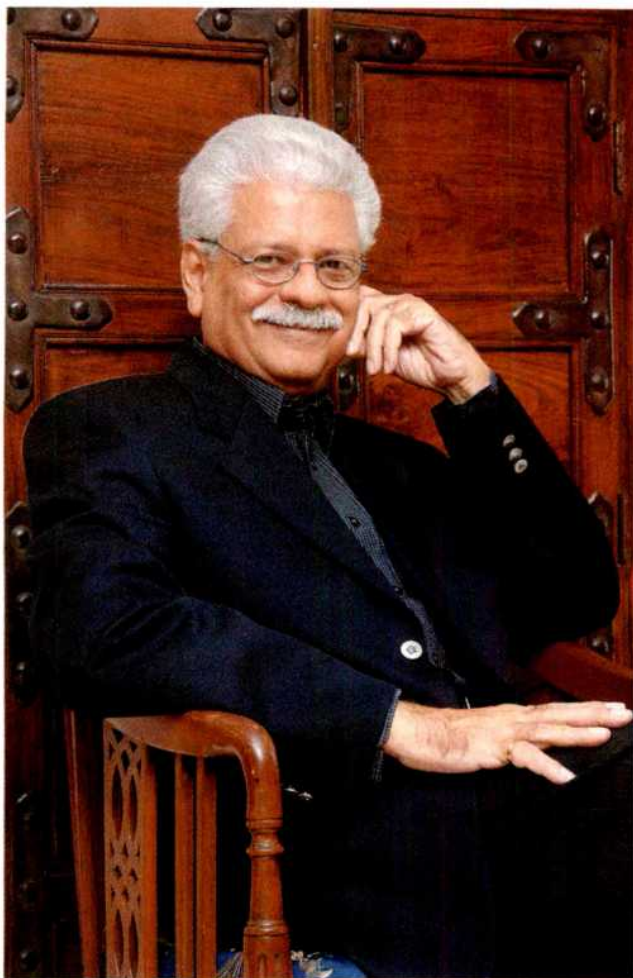


2006
Sells stake in Paras Pharma to Actis for \$43 million

2010
MARCH: Sets up Vini Products

2011
JULY: Launches 18+ deodorant brand
DEC: Launches Fogg

2013
AUG: Raises ₹110 crore funding from Sequoia



that. "When the leader took the 'attraction' route in communications, all brands followed suit. This unfortunately, commoditised the category and brands lost pricing power," he says. Fogg, according to Chawla, took a different route in striking out and managed to garner market attention. A 100 gm bottle of Fogg costs ₹180, about seven-to-10 per cent higher than other products in the market but the number of sprays per pack would be significantly higher than competition. Indeed, Fogg was costlier than most other deodorants by over 15 per cent about a couple of years ago but the price differential has now narrowed as other brands have raised prices.

Meanwhile, Patel's growing reputation as a brand wizard has caught the attention of investors. "Darshan Patel is easily the best marketing brain in the country; and we have met several marketers," says Abhay Pandey, Managing Director at venture capital firm Sequoia Capital, which pumped ₹110-crore into Vini in August last year for a nine per cent stake. And it is not merely an understanding of personal care and health-care markets that gave Pandey the confidence to fund Vini. More importantly, he has seen Patel in action. "We were investors

in Paras and know his ability to act on consumer insights to create products and back these up with aggressive and meaningful communication," he says.

Early Success

Patel had no formal grounding in the basics of branding and marketing. "I did not know the 'A' of advertising, the 'B' of branding or the 'C' of consumer insight until the early nineties," he says. Patel's first brush with marketing happened in 1986 when he was asked to help out the family-run business, Paras Pharma. "Moov was launched, but it was just not getting the traction. Research told us that it was an also-ran and its use was limited to just a couple of occasions when people could not tolerate pain," he says. That is when Patel undertook his life's first 'repositioning' exercise. Moov was labeled as a specialist pain reliever for back pain from just a general pain balm earlier. This gave it an identity distinct from its competing brands, most

of which were general pain relievers. Besides, given the modern work dynamics and stress, backache was turning out to be the newest ailment plaguing Indians.

Patel's involvement with Krack in 1993 at Paras too worked wonders and created a new niche category segment altogether. There were hardly any products for cracked heels then in the market. It was the strength of the brands created

VISPY DOCTOR
MD/Ormax
"HE THINKS
LIKE A TRUE
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for Paras by Patel that led to its buyout by British consumer goods firm Reckitt Benckiser Group, makers of Dettol and Harpic, for \$726 million in 2010.

Now with Fogg, Patel has once again rolled out an innovative marketing strategy. The product was positioned from the beginning as a value-for-money proposition and has once again demonstrated Patel's skill in building personal care brands.

Interestingly, the market today has several companies with deep pockets which are all spending upwards of ₹30 crore annually to create deodorant brands including Hindustan Unilever (Axe) and ITC (Engage). Patel doesn't reveal how much he has spent on Fogg but experts believe



What are Darshan Patel's brothers doing since the Paras buyout?
Find out at www.businesstoday.in/darshan-parasbuyout

he has been thrifty in comparison. How can he fight their ability to keep spending on building brands? "I am frugal but also aggressive in my own way and not about to blink in front of competition," says Patel. "I worry more about the health of my own brands and their ability to meet a need and not about what others are up to."

Most people Patel has interacted with in the past and the present point out that he leads from the front and sets high standards. "The interesting thing is that Darshanbhai does a lot of the work himself. The entire Fogg concept was completely his creation and after that he got the agency to take it forward," says Prateek Srivastava, former Group President and Director of O&M, whose association with Patel dates back to Paras. Srivastava has now co-founded Chapter Five Brand Solutions, which is aiding Patel on the launch of Fogg Black, a deodorant for women. "He thinks like a true businessman and has ideas that can be sold to people. He has an incredibly agile mind," says Vispy Doctor, Managing Director of consumer knowledge firm Ormax. Doctor has assisted Patel on several projects.

Meanwhile, Vini is not betting on Fogg alone. "We are also seeing action with our launch of fairness compact powder White Tone and beauty benefit cream Glam Up," says Patel. White Tone was launched in April 2012, while Glam Up hit the market in August last year.

The launch of Glam Up, in particular, is being viewed as a smart move by Patel into the nascent beauty benefit cream market, popularly known as BB. This segment is also known as CC (concealing cream) and FC (foundation cream) segment. "Our product provides an instant solution to women who feel the need to look better. I feel we have a blockbuster on our hands," he says.

Indeed, this is a fairly recent trend globally as well. Nicole Tyrimou, Analyst, Beauty and Personal Care at London-based market intelligence firm Euromonitor International, notes in her blog that the frenzy surrounding the BB/CC cream products has been unprecedented. "These 'cult' beauty products have transformed the global innovation landscape." In India too this market has witnessed traction with all multinational brands having entrenched positions with products such as Garnier Miracle Skin Perfector and Pond's White Beauty BB+. For Glam-Up, Patel is banking on product quality coupled with competitive pricing to take on competition. "He really believes in quality research when it comes to knowing consumers ... He is truly original in his approach and acts fast and aggressively to execute his ideas," says Doctor.

Patel is aware that the company will need to focus on products that have a better seasonal spread. "We have Jinjola in our portfolio, but prickly heat powders have a very limited shelf-life in summers," he points out. Hence, he intends to retain the product in the market but not aggressively push for its growth. "I will pull out all the stops only in product areas where I see a bigger market and also



ABHAY PANDEY
MD/Sequoia Capital
**"DARSHAN PATEL
IS EASILY THE
BEST MARKETING
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HAVE MET SEVERAL
MARKETERS"**

that is acceptable across geographies," he says.

Vini is also scaling up its distribution network. It already has 5,000 wholesalers and is available across 7.5 lakh retail points.

Patel expects to have closed 2013/14 with revenues of ₹300 crore and is expecting some profit to show up in his books for the first time. But that is hardly a concern for his investors. "Our guidance is to focus on high growth, high gross margins and not worry so much about EBITDA (earnings before interest, taxes, depreciation, and am-

ortisation) in early stages," says Pandey of Sequoia. It was this visible march forward by Vini that got Sequoia to pick up a stake in the company that has valued it at over ₹1,000 crore.

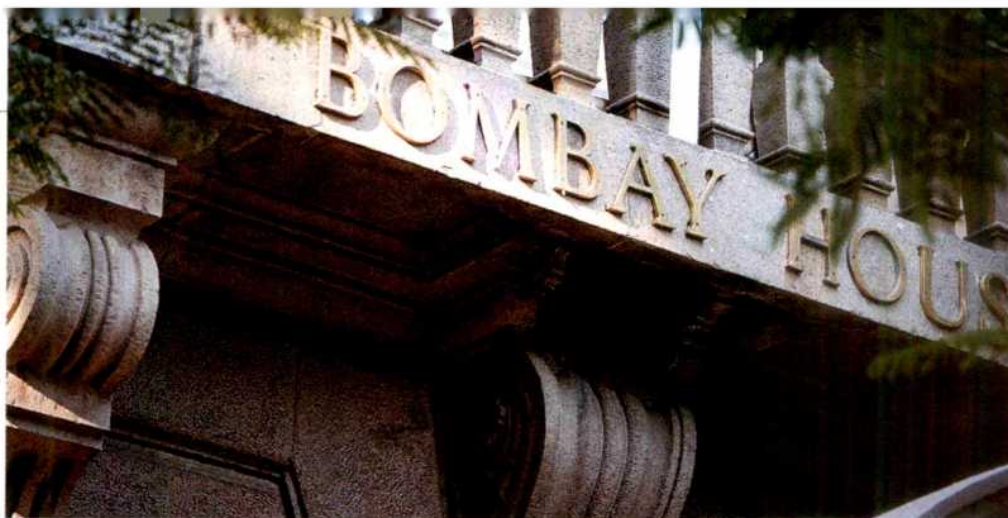
"What I see is a company that has a clear focus, ability to differentiate itself and take risks," says Kannan Sitaram, Operating Partner at PE firm IEP, a fast moving consumer goods companies veteran who has spent close to over two decades with Hindustan Unilever in the past. ♦

@ShamniPande

The Greening of the House of Tatas

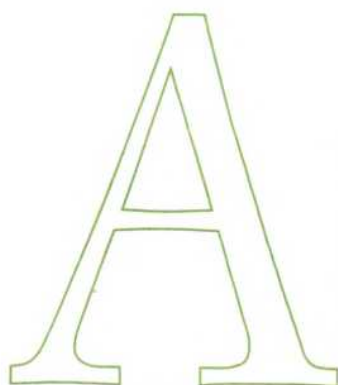


Eco warriors: (From left) Chitranjan Kaushik, COO, Ecofirst Services; Rakesh Bhatia, Vice President, Ecofirst Services; F.N. Subedar, COO, Tata Sons; Freddy P. Talati, CEO, The Associated Building Co. at the Bombay House entrance



How a dedicated team converted a 90-year-old heritage structure into a benchmark for environment-friendly buildings.

By MANISHA SINGHAL



Sons: "In the 19th century, he was thinking about an issue, clean energy, with which we are grappling even today."

It is not surprising then that the headquarters of the \$96.79-billion Tata Group, the building known as Bombay House, which was completed in 1924, became in March, the first heritage structure in the country to get a gold rating as a green, environmentally friendly building. The rating, following an audit, is awarded by the Indian Green Building Council (IGBC), the Indian chapter of the US Green Building Council. Keeping the environment clean has always mattered to the Tatas.

Subedar says the Tata commitment to maintaining heritage buildings was demonstrated earlier in 1989, when the group renovated and upgraded another south Mumbai property it owned. The entire building had been rented out ages back and the Tatas earned a pittance of ₹5,000 per month as rent from it, but that did not matter. "What we spent on the renovation was several multiples of that amount," says Subedar.

The building in question is located on a 2,365-square-yard plot bought in 1904 after the then offices of the group, located in different parts of south Mumbai, began to prove too small. The last major change it saw was in 1942, when it got an addi-

s early as in the late 1880s. Jamsetji Tata, legendary founder of the Tata Group, had thought of getting hydroelectric power to the city, then called Bombay because he wanted the residents to breathe clean air. He was aware of the diseases textile workers in Manchester were prone to due to inhaling smoke from coal-based power plants. Says F.N. Subedar, Chief Operating Officer (COO), Tata

Standing Tall

The Tata Group headquarters in Mumbai, Bombay House, is replete with history

- The plot, in South Mumbai, was bought in 1904
- George Wittet, the same architect who designed the Gateway of India and the Prince of Wales Museum, built Bombay House
- The building was completed in 1924
- The Chairman's office, occupied by the likes of J.R.D. Tata and Ratan Tata - and now by Cyrus Mistry - is on the fourth floor
- The Associated Building Co. owns the building and is responsible for its upkeep

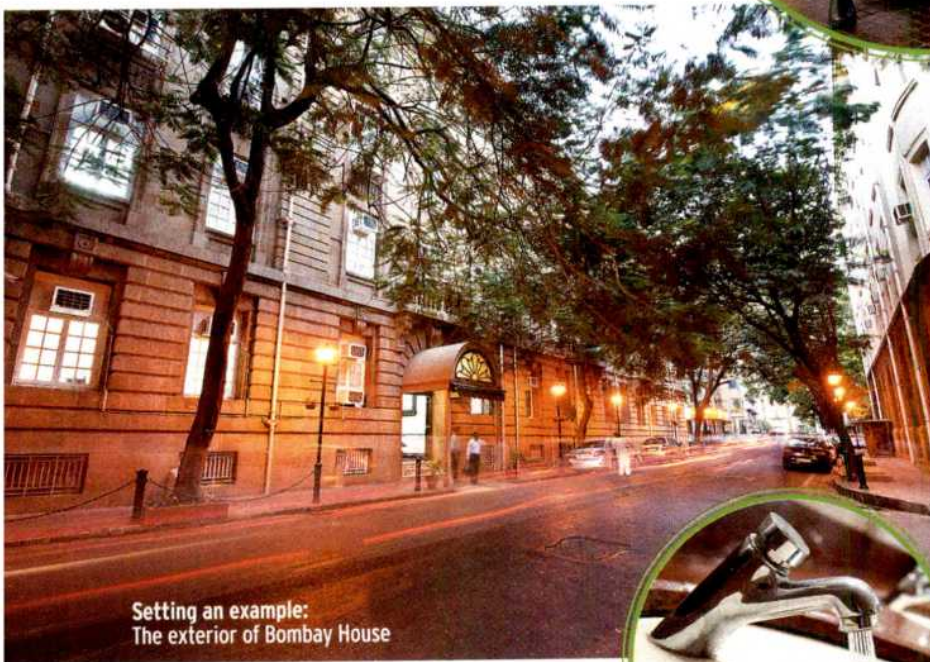
REINCARNATION

The main changes the team carried out at Bombay House



For energy efficiency

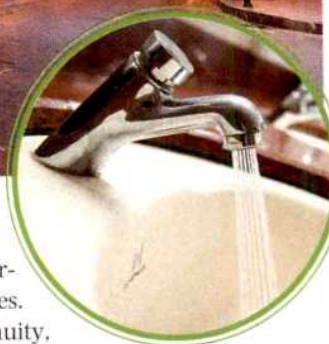
- LED lights installed all over with their guarantee period renegotiated for five years
- Sensors placed in public areas of the building to cut off power when the space is not in use
- Clean energy bought from a renewable source for a low carbon footprint
- ₹90 lakh saved per year on the building's power consumption



Setting an example:
The exterior of Bombay House

For water efficiency

- Valves that control water flow installed in restrooms
- Low-flow fixtures, which again save a good deal of water, installed
- Rainwater harvesting tank built



For health and hygiene

- Improved waste management, using segregated bins for dry, wet and medical waste
- Duct built to draw in more fresh air and improve air quality in the building
- Began monitoring and controlling carbon dioxide levels in the building
- Installed an ozone system to clean the air-conditioning ducts removing fungus and moss build up



For site management

- Increased focus on managing e-waste
- Traded landscaping requirement for green buildings - since there was no space for it around Bombay House - by pointing out that several gardens in Mumbai were maintained by Tata trusts

tional fourth floor - which the Tata Sons chairman - effective head of the entire group - occupies. "There has been change happening with continuity, but no drastic one time change. We do not want to lose the essential character of this building," says Subedar.

The need to preserve the past was in fact the major challenge while introducing the changes needed for green building certification. "The challenges are higher when a heritage and existing building goes in for green certification as nobody wants to change the façade," says S. Raghupathy, Director, IGBC. "Getting appropriate materials becomes difficult and so does implementing measures to achieve high energy efficiency."

The key company involved was Ecofirst Services, a subsidiary of Tata Consulting Engineers and one of the latest acquisitions of the group, which was already engaged in sustainability initiatives. It accelerated the greening efforts the Tatas had already begun from 2009.

There were compulsions that triggered the effort. "The fact that from 2011 we were not supposed to use the gas Freon as a refrigerant, as well as other regulations relating to fire protection and air conditioning pushed the change," says Freddy P. Talati, CEO of The Associated Building Co., the Tata outfit that owns Bombay House. But there were constraints too. "With a heritage building you do not know its load bearing capacity. The façade also has to be kept intact so major changes cannot be made," says Chitranjan Kaushik, COO, Ecofirst Services. It also involved a mindset change for the employees. "There is a widespread practice in offices: once you switch something on, you don't switch it off till you leave," adds Talati. That could not go on.



For Ecofirst's expansion plans, go to
www.businesstoday.in/bombayhouse-ecofirst

The first step he took was to replace all the bulbs and light fixtures, putting in the more energy efficient LED lights. Not only that, since he was buying in bulk, he negotiated to get the warranty period for the lights extended to five years from the usual one year. "That was a saving of almost 50 per cent," he says. Sensors were also installed with the lights, which led to bigger savings. Subedar says one night when he was working late, he noticed that the lights in a restroom he passed on his way out were still on, though employees had all left. "The next day I asked Freddy (Talati) why he did not tell the security staff to switch off the lights after a particular hour. Freddy went a step further and said he would install sensor based lights, which would go off or on depending on whether there were people using the restrooms or not. I thought he was being a bit too futuristic but actually it works."

Bombay House's location, in a narrow lane, also proved a problem. It opens directly on to the road, with no compound wall around it, so landscaping – a mandatory requirement for green buildings – was out of question. But there was a way around it. "Several gardens in Mumbai have been maintained by the Tata trusts for more than 75 years," says Rakesh Bhatia, Vice President, Ecofirst. "We highlighted this to the IGBC and it granted us the points reserved for landscaping."

Maintaining internal air quality as per the requisite levels was a tall order as well. "We found the windows would never open and the air-conditioning system never took in fresh air," says Kaushik. "We had to devise a system to get in fresh air." So what was done? "We made a duct which goes in at the top and every day our building management system tells us what the quality of the air is like, so that levels of carbon dioxide are known and enough fresh air is provided," says Talati. Bringing in fresh air meant more expenditure on cooling, but for the Tatas it was money well spent. The air-conditioning ducts were made fungus and algae free by installing an ozone system to clean them.

To save water, low flow fixtures had to be installed in all the restrooms. This was by no means a simple task. "Strict guidelines were given pointing out that the tiles in the restrooms were also heritage tiles and even if one of them is broken in the process, replacing it will be difficult," says Bhatia. Given the space constraint, rainwater harvesting was another challenge. "We could not have a tank outside the building, nor could we have

one in the basement." The solution? Rainwater is collected from other sources and pumped up to an overhead tank at Bombay House.

Finally, there was the question of energy use – much of it had to be from renewable sources. Once again, installing solar photo voltaic panels on the roof was a problem. "Putting that kind of load on the building was not possible," adds Bhatia. But there was a way out – buying renewable energy certificates from the market. The



● Initiative started in early 2009, certification received in March 2014

● Bombay House is the first heritage building to get a Gold rating from the Indian Green Building Council

● Ecofirst, the sustainability arm of Tata Consulting Engineers, played a key role in the effort

team turned to Tata Power, which was already trading in RECs, and an arrangement was finalised. Currently, 75 per cent of power used at Bombay House is renewable energy.

Subedar admits that all these initiatives do have an additional recurring cost, but the team showed him the saving it was bringing about. In 2009, before the greening began, Bombay House was consuming 1.85 million units of electricity annually – by 2014, it is down to 1.25 million. At ₹15 per unit, that is a saving of ₹90 lakh.

Nor is this the end. Ecofirst is now working to make the 100-acre Tata Institute of Social Sciences in Hyderabad a sustainable development project. As for Bombay House there is a further peak to scale with still more energy saving – the platinum rating. ♦

@manishasinghal

STRONG, STRONGER, STRONGEST

Never more has success of a brand in India been so paradoxical than Horlicks from the GlaxoSmithKline Consumer Healthcare (GSKCH) stable. Conventional management wisdom will tell you to extract as much as you can from a brand and its variants but to derisk the owner from overdependence on the brand. But Horlicks is a case of repeated success with brand variants making a virtue of GSKCH's dependence on it. "Horlicks is a very powerful brand associated strongly with the milk and health space. This is both its strength and its weakness," says marketing consultant Sunil Alagh.

GSKCH's health food drink (HFD) brands – Horlicks, Boost, Maltova and Viva – account for 58.6 per cent by value and 65.1 per cent by volume of a some ₹5,000-crore market, per date from market researcher Nielsen for 2013. Horlicks and its variants account for almost half the HFD market by volume. (See *Healthy As Ever*.)

Cadbury India's Bournvita had a share of 17 per cent and Heinz's Complan, 11 per cent.

Now, flip that inwards. The HFD category contributes 77 per cent to GSKCH's revenues of ₹3,079 crore for calendar 2012. (Results for 2013 have not been announced yet.)

So, really, how has the company fared in fortifying a brand that is 140 years old? Horlicks was locally manufactured in India only since 1958, though it had been available via imports since the early 1900s. It was one of the early starters with aggressive advertising and it pulled in celebrities such as Amitabh Bachchan in the 1970s to endorse its brand over radio.

"But Horlicks remained largely a family drink till the 1990s," says Jayant Singh, Executive Vice President, Marketing, GSKCH. The company then recognised that there was a specific need for toddlers in the one to three years age group and launched Junior Horlicks in

50%

by volume, Horlicks's
share of the branded
health food drinks
market



EXECUTIVE SUMMARY:

Brands and products tend to age over the years if not nurtured properly. Horlicks has learnt to defy age. By successfully launching variants at different points in time, it has strengthened its core brand values, apart from addressing new consumer needs and thus bringing such consumers into its fold. This case study looks at how Horlicks has avoided getting dated. By SHAMNI PANDE

1995. It had made a bid for its first brand line-extension with biscuits in 1992, but that hardly moved the needle for the company. "The market, for various economic and other social conditions, was undergoing several changes and we saw only single-digit growth in our top line," says Singh.

This was a period of turmoil in the consumer products market, as India, after liberalisation, saw the entry of several new brands both from domestic and international players. Bournvita and Complan were seen to be strong contenders in west and northern parts of the country, so was local player Jagatjit Industries with its brand Maltova and Viva in the north. GSKCH acquired Maltova and Viva and effectively prevented competition from opening a new front.

It simultane-



EXTENSIONS HAVE SO FAR BEEN A MIXED BAG FOR HORLICKS

The core Horlicks brand is successful. It lays claim to more than half the white-malted beverages market. Therefore, increasing market share substantially might be difficult. But Horlicks has been steadily introducing line and brand extensions to keep itself relevant. Generally, when the market share of a brand is very high, it gets strongly identified with the parent category and, therefore, gets difficult to stretch. This has been seen in strong brands such as Colgate, Nirma, Ponds and Lifebuoy. (This is the paradox of brand extensions: weak parents are difficult to stretch; ironically, so are very strong parents.)

So, stretching the Horlicks brand may not be easy. But stretching into categories in the immediate neighbourhood might be easier than stretching into distant ones. Horlicks may find it easier to stretch into variants (Junior Horlicks, Mother's Horlicks, etc). Extensions beyond that into categories like biscuits might prove to be more difficult given the brand's equity. The question even for variants is whether a "kids" brand can be extended to "adults". However, that is still easy to argue because the extensions are also malted beverages.

But once a "malted beverage" wants to extend to "food" (biscuit/noodles), that needs more careful negotiation. Horlicks biscuits, for instance, have been available for years now. However, their contribution to the company's kitty has been small. Horlicks oats claim better traction. But this category, too, sees stiff competition from Indian and multinational brands. Meanwhile, several of Horlicks extensions like NutriBar, Chill Dood and flavoured milk have been wound down.

Extensions have so far been a mixed bag for Horlicks. They have miles to go before they become family silver like their parent.

"Stretching into categories in the immediate neighbourhood of the mother brand may be easier than stretching into distant ones"

Y.L.R. MOORTHY

Professor (Marketing), IIM Bangalore



ously invested in consumer research and aggressive brand strategy. "We would visit homes and the company wanted to listen in to the consumer needs even in the early 1980s," says Bindu Sethi, Chief Strategy Officer at ad agency JWT. She has been associated with the brand since then, first as part of market research firm IMRB and then when she joined HTA (now JWT) in 1988 as a media planner. "It was this consumer voice that found reflection in the repositioning of Horlicks as a drink targeted at children in 2003, with the 'Epang, Opang, Jhapang' campaign," she says. (Watch the campaign on YouTube at <http://bit.ly/epang>.)

This was the tipping point. What appeared to be a natural slot for the brand to slip into, actually followed heated debate within the company: Horlicks was a family drink until then, the great "family nourisher". All branding and communication spoke to different family members and how it meant different things to different people, while the new campaign spoke to children directly. "There were worries that it would disengage a loyal adult base," says Charubala Sheshadri, Marketing Director, Wellness (OTC) and Oral Health, GSKCH, who joined the company in 2004 as marketing manager for Horlicks.

This campaign, however, was just the precursor. The company has always viewed Horlicks equity as a bank deposit since. "It has invested at every critical juncture in the brand and its nutrition profile backing it with proof of science," says Sheshadri. In 2003, it offered its newly formulated Horlicks to the National Institute of Nutrition (NIN) at Hyderabad, which conducted research to prove its effect on the growth of children. "We clearly identified three key benefit areas to do with bone health of children, muscle health and their ability to focus better," says Singh. This led to the "Taller, Stronger, Sharper" campaign.

In this, the company tapped into the growing pester power of children who now were key decision makers not only with what they ate, but also other key decisions around the household. There was someone else too, pushing for this change. The company now had a new managing director in Zubair Ahmed in 2007. He inherited a company that had already accelerated into double-digit growth. By then, the company had speeded up its brand variant launches with Horlicks Lite in 2005, aimed at diabetics and Horlicks NutriBar in 2006 (this launch did not work as planned). "We were already a part of the morning menu with milk. Now we are growing in our presence with various extensions and

HEALTHY AS EVER

How Horlicks thrived over the years

1958: Starts production in India

1992: Begins its first brand-line extension with Horlicks Biscuits



1995: Launches Junior Horlicks in vanilla and chocolate variants

2003: Makes significant brand equity shift positioning Horlicks strongly for children rather than the entire family

2005: Launches Horlicks Lite, a low-fat and low-sugar alternative

2008: Unveils Women's Horlicks, a blockbuster product

2009: Starts 'Taller, Stronger, Sharper' campaign

2011: Introduces Horlicks Gold, its premium brand

2012: Presents new ad campaign - 5 Signs of Growth

2014: The new Kesar Badam flavour from Horlicks

65.1% Market share of GSKCH, which owns Horlicks, Viva, and Maltova

JUXTAPOSITION OF THE SUBLIME AND THE RIDICULOUS

Horlicks offers a fascinating view of what to do and what not to do, when it comes to brand extensions. On this front, the evolution of Horlicks is replete with ideas of dos and don'ts. In fact, one also sees a juxtaposition of the sublime and the ridiculous.

What has Horlicks done right? Clearly, the strategy of attacking itself, in core Horlicks territory, before someone else does, has worked to keep it ahead. Identifying, creating and fast-tracking sub-segments have ensured that it has left no obvious gaps for other players to exploit. Full marks here definitely.

What has it not done right? Overextension of the brand – with Noodles and Cereal Bars – into completely unrelated categories has made it pay, both in terms of wasted effort and long-term dilution of the mother brand. And one really wonders why, given that the success of Boost and the failure of Chocolate Horlicks (its first attempt to take Horlicks into a seemingly similar but actually different consumer space) should have taught it a valuable lesson. It has also not been successful in finding ways to make Horlicks a more mainstream product in the north and west of the country. One can only presume that these misses were driven by some arrogance and a reluctance to invest and take a hit on profitability.

On biscuits and oats, too, I have my doubts for the same reasons.

In the final analysis, GSKCH is a very successful company and Horlicks is one of the strongest brands in the food and beverage business. Questions about its future arise only due to its overwhelming dependence on Horlicks in its core areas. This makes one critical of some of its actions that have not been thought through.

“Questions about GSKCH's future arise only due to its overwhelming dependence on Horlicks in its core areas”

ARUN HEGDE
Former MD, Wrigley India



adjacents," says Ahmed.

The company found that women were an ignored segment as there was no specific product addressing their specific need. This led to the launch of Women's Horlicks in 2008, creating a blockbuster product. "It has been growing 60-65 per cent year on year [even if] on a small base," says Singh. But the effect has been that Horlicks Lite combined with Women's Horlicks ensured that the company clocked growth of more than 17 per cent in revenues until 2011. Given that competition was also pumping up volume on the benefit of micronutrients and research-backed offering, in 2012 GSKCH again decided to challenge itself to deliver further on its by-now older promise of "Taller, Stronger, Sharper". Aided by its R&D centre, it formulated a blend of Horlicks that was guided by its earlier study done by NIN. The results showed five clear areas of benefit: more bone area, more muscle, better concentration, more active nutrients, and healthier blood. This led to its launch of the "5 Signs of Growth" positioning and campaign.

GSKCH had its hiccups with its Horlicks extensions. The 2010 launch of Chill Dood, its flavoured milk range, did not take off. Nor did its attempt to launch cream biscuits and noodles, under the brand Horlicks Foodles, in 2009. "I think it has huge potential in the health segment of biscuits with digestive, diabetic, milk, etc. However, in segments like noodles and snacking where taste is supreme, they will find it difficult to compete with the likes of Nestle and ITC," says Alagh, the marketing consultant and former managing director of biscuit

maker Britannia Industries.

According to Alagh, GSKCH needs to transform brand Horlicks from "purely health, especially aimed at children, to a tasty but healthy positioning" for all. Therein lies the challenge. Industry insiders say much of the company's success has come from adjacent brand variants such as Horlicks Junior, Women's Horlicks, Horlicks Lite and Mother's Horlicks and not from extensions into biscuits, noodles and, even low-priced HFD variants such as Asha.

Latest extensions like Horlicks ProMind and Horlicks Gold are yet to establish themselves conclusively, though they have shown promising uptake in their test markets in the south. GSKCH thinks successes far outnumber failures. "We are already the second-largest brand in the south after Quaker Oats," points out Singh. GSKCH is certainly on a fast track. According to the Ace Equity database, Horlicks and its brand variants have helped the company accelerate its revenues and profits in the last five years (till December 2012) to 19.2 per cent and 23.4 per cent, respectively, against 13.1 and 20.8 per cent in the preceding five years. Taller, Stronger, Sharper, indeed. ♦

@ShamniPande

What should Horlicks do next to consolidate and extend its market share? Post your comments at businesstoday.in/casestudy-horlicks. The best response will be published in the magazine and will also win a copy of a Harvard Business School Press pocket mentor. Previous case studies are at www.businesstoday.in/casestudy.

BEST OF THE LOT

BT receives many responses to its case studies. Below is the best one on *Quenching Chennai's Thirst* (Mar 16, 2014)

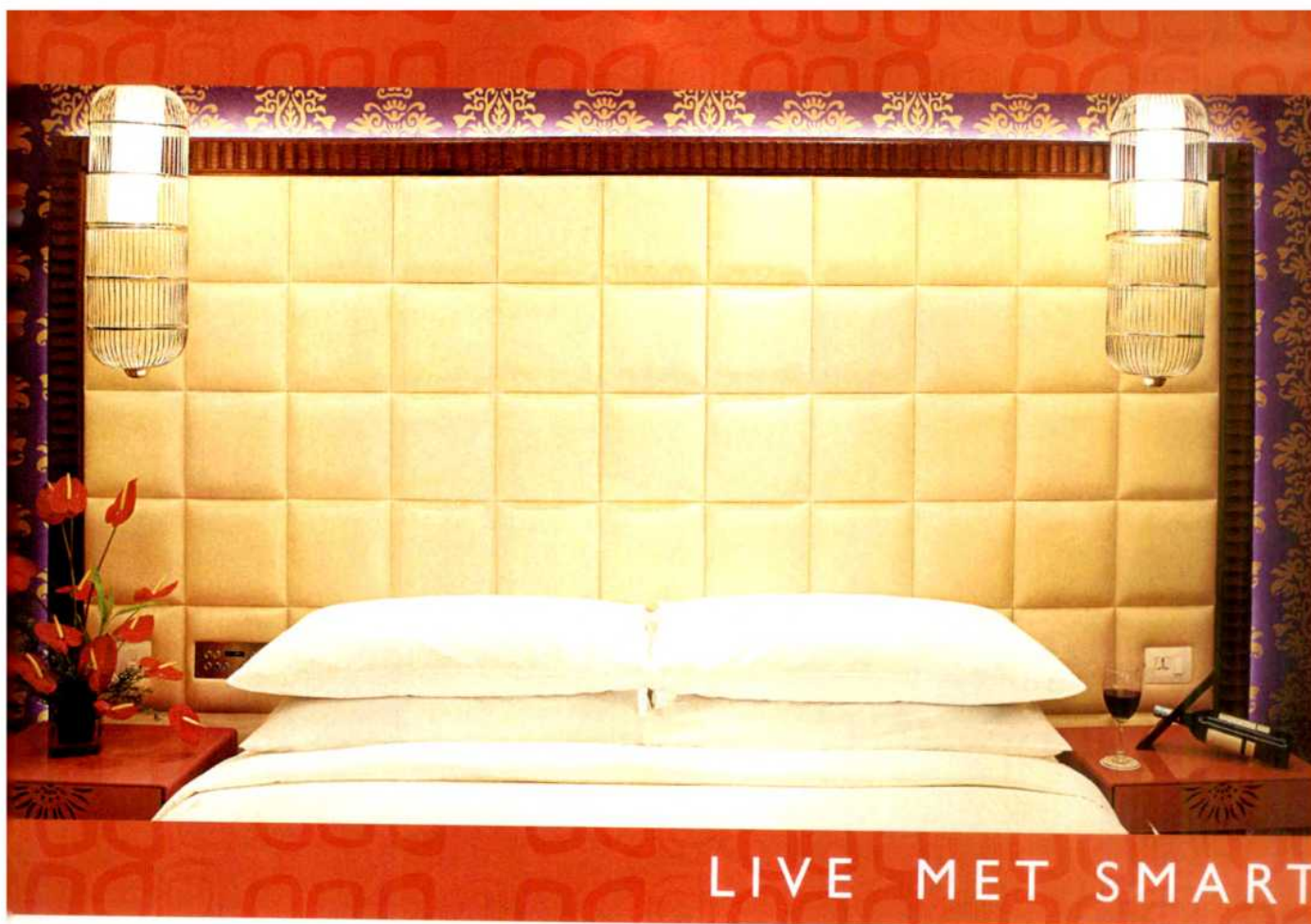
Anupama Prakash, Student, IIM Kozhikode



Chennai being a coastal city was ideal for adopting desalination because of the abundant availability of seawater. The involvement of private players and the EPC mode of operation (which helped the government to retain control over the whole plant) were the main factors behind the success of the entire desalination set-up. However, desalination is not an issue-free process. Though the government was able to reduce the cost of one litre of water from 4.8 paise to 2 paise using energy-efficiency improvement systems, desalination as such is costlier than traditional methods like conservation of fresh water. Also, the process of desalination can have harmful environmental implications. The Nemmeli plant has already been facing flak from adjoining villages for release of brine water and disposal of salt residues. Desalination on a large scale can also disrupt aquatic life. An alternative to desalination is rainwater harvesting, which is cheaper and much simpler to implement. In fact, the erratic rainfall pattern of Chennai necessitates storage of rainwater, which is why the government of Tamil Nadu made rainwater harvesting mandatory in 2003. Awareness campaigns on water conservation need to be promoted and community-based water conservation methods, like those adopted in water-dry states like Rajasthan (Alwar region), need to be encouraged. Correcting the supply chain to fix inefficiencies, leaks and wastage in the system can easily save millions of litres of water every day. There should be an overhaul in the system so as to address the issue of water scarcity from both demand and supply sides, and only that can be a long-term, cost-effective solution to this issue.



Anupama wins a Harvard business School pocket mentor



sakura
japanese kitchen

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ZING

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- Best Luxury Beauty Spa (NeoVeda Spa) - World Luxury Spa Awards
- Best Luxury Emerging Spa (NeoVeda Spa) - World Luxury Spa Awards
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AIJAY THAKUR

WAITIN' ON A SUNNY DAY

Fund managers have turned bullish with economic indicators improving, finds the fifth edition of the *BT-Morningstar Asset Allocation Survey*.

By MAHESH NAYAK

Chintan Haria, Fund Manager at ICICI Prudential Mutual Fund, was fully invested in equities by the end of February on expectations of a bull run. As the market touched new highs in March he took some profit and pared his portfolio to 90 per cent, as he felt the rise was faster than expected and it was better to sit on some cash ahead of the April-May general elections. Still, he is optimistic about Indian equities and believes the worst seems to be over for the economy. "GDP [gross domestic product] growth has bottomed out, inflation has peaked and the fiscal deficit is the talk of the past," he says.

Another major factor for fund managers such as Haria

turning bullish on equities in the past three months is the expectation that the Bharatiya Janata Party-led National Democratic Alliance (NDA) will come to power at the Centre after the elections. The mood has changed as market players, who earlier expected a fractured mandate in the polls, now believe a stable government will be formed. This confidence is reflected in the fifth edition of the *Business Today Morningstar Asset Allocation Survey*

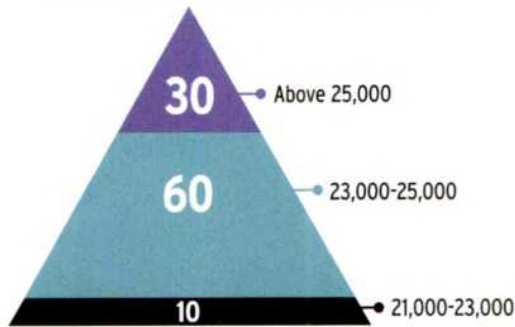
of fund managers. The survey shows no fund manager expects the Bombay Stock Exchange's benchmark Sensex to fall below the 21,000 level by the end of March 2015. The Sensex closed at 22,628.84 on April 17, a day before this magazine was sent to press.

PARTICIPATING MUTUAL FUND HOUSES

1 Baroda Pioneer	5 SBI MF	9 BNP Paribas
2 HDFC MF	6 DSP BlackRock	10 ING MF
3 ICICI Prudential	7 UTI MF	11 Mirae AMC
4 Sundaram MF	8 Birla SunLife	12 Taurus MF

The 12 fund houses account for 56.4% of assets under management of the MF industry

1 At what level do you expect the BSE Sensex to be a year from now?



2 Which sectors look attractive over the next one year?



The survey shows 60 per cent of those polled expect the Sensex to trade between 23,000 and 25,000, and 30 per cent feel it could top 25,000 in the next one year. This is a dramatic change from the survey's third edition in October when only 15 per cent fund managers expected the Sensex to cross 20,000 and from the fourth round in February when 45 per cent predicted a level above 23,000.

In the latest survey, all fund managers expect a sustained rise in foreign inflows. However, if there isn't a favourable outcome from the election or if there is a fractured mandate, a majority 92 per cent of the fund managers see the equity market tumbling. "One can't predict the outcome of the election, but the entire herd expects the NDA to come to power. Any disappointment will see a minimum 15 per cent fall in the Sensex," says Haria.

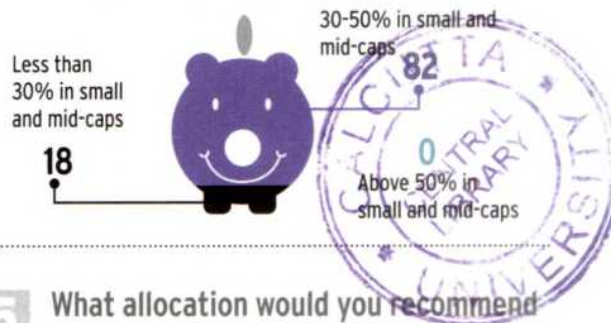
The survey showed that, while fund managers are confident about the Sensex scaling new peaks, they aren't ready to take more exposure to mid- and small-cap stocks. No fund manager wants to invest more than half of the portfolio in mid- and small-cap stocks, compared with 27 per cent in the previous survey.

Despite the sharp rise in the Sensex in the past few months, valuations seem compelling to fund managers, with 58 per cent of them expecting the index's price-to-earnings ratio, an indicator used for valuing stocks, to hover between 14 and 16 times forward earnings over the next one year. A quarter of those polled expect the ratio to be between 16 and 18 times

3 Which sectors are you least confident about over the next one year?



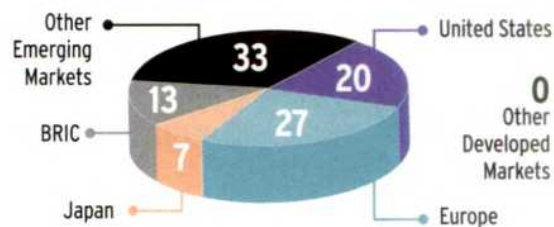
4 How would you allocate money in equity in the coming year?



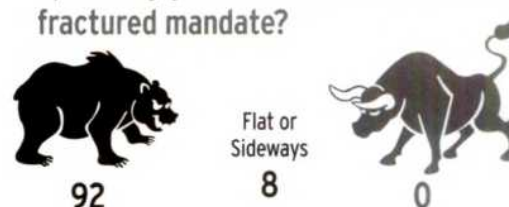
5 What allocation would you recommend for equity, debt, gold and cash over the next one year?



6 Over the next one year, which leading global markets are likely to be most favoured by institutional investors?



7 How will the market behave if the upcoming general election results in a fractured mandate?



All figures in per cent

WHAT ARE THE **BEST** CONSUMER DURABLE BRANDS IN THE COUNTRY?

What makes them the most preferred or explains their durability or acceptability? Know this through an exclusive India Today, in association with Marketing & Development Research Associates (MDRA) Consumer Rating Survey that assess performance of various brands of consumer durables in India.

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INVESTMENT BT-Morningstar Asset Allocation Survey

forward earnings. Apart from shares, fund managers are looking to take more risks in the debt market. The survey showed that half of those polled expect to increase their exposure to lower-rated debt in the coming year while the other half want to hold on to their lower-rated paper.

The survey also shows that fund managers expect the economic situation to improve. GDP is likely to grow at 5.5 per cent to six per cent, feel 42 per cent of the respondents. Only 18 per cent expected GDP growth to touch this level in the previous survey. Half the fund managers project GDP growth between five per cent and 5.5 per cent.

Similarly, fund managers believe inflation will stabilise in the coming year. Of those polled, 42 per cent expect inflation based on the wholesale price index (WPI) hovering between four per cent and five per cent while 50 per cent see the consumer price index (CPI) between seven per cent and eight per cent. WPI inflation was 5.7 per cent in March while CPI stood at 8.31 per cent, latest government data show.

Despite an improvement in the macro environment, a majority of fund managers do not expect the Reserve Bank of India (RBI) to sharply cut interest rates in the next one year. Nearly three-fourths of the respondents expect the repo rate – at which banks borrow from the RBI – to be in a range of 7.5 per cent to eight per cent, unlike the previous survey where 55 per cent expected the rate to hover between seven per cent and 7.5 per cent. A few fund managers (18 per cent) expect the repo rate to rise a tad and stay in the eight per cent to 8.5 per cent range in the coming year. On April 1, the RBI kept the repo rate unchanged at eight per cent in its monetary policy review.

The survey shows more fund managers than before expect the rupee to appreciate. Half of those polled predict the rupee to trade around 60 to 62 to a dollar over the next one year while 42 per cent expect it to strengthen and hover between 58 and 60. Only eight per cent feel the rupee will weaken to trade between 62 and 64 against the dollar in the coming year, compared with 45 per cent in the previous survey. The rupee is currently trading around 60 versus the dollar.

The view on crude oil prices hasn't changed much among fund managers. Like the last survey, more than half the fund managers expect crude oil prices around \$100 to \$110 a barrel. More than a third (36 per cent) expect oil prices to trade in a range of \$90 to \$100 a barrel while nine per cent predict a fall below \$90 over the next one year. Similarly, the view on gold hasn't changed much with 36 per cent looking to sell gold and only nine per cent in favour of buying the yellow metal. ♦

@MaheshNayak

8 Who has a higher chance of forming the next government at the Centre ?



100%

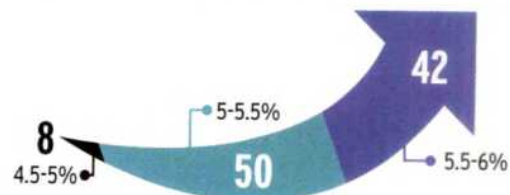
BJP and allies



0%

Congress and allies

9 With a one-year horizon, where do you see India's GDP growth rate?



10 At what level do you see the repo rate over the next one year?

18%

8-8.5%

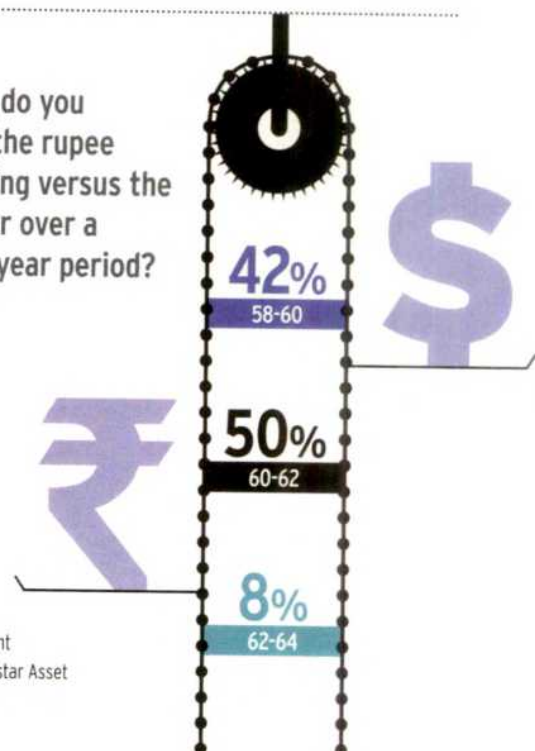
73%

7.5-8%

9%

7-7.5%

11 How do you see the rupee moving versus the dollar over a one-year period?



All figures in per cent
Source: BT-Morningstar Asset Allocation Survey

MONEY

RISK ALERT
BUYERS SHOULD
NOT FALL FOR
UNREASONABLE
RETURNS, WHICH
CAN NEITHER BE
GUARANTEED NOR PAID
BY DEVELOPERS

Too Good to Be True?

Developers are offering lucrative buyback schemes. But such promises may not be always kept.

By RENU YADAV



Struggling to raise funds in a sluggish market, real estate developers are coming out with assured buyback/return schemes to attract buyers. While they have been offering assured return schemes on commercial property for years, they have of late started offering similar plans for residential projects too. The fund crunch, it seems, is hitting them hard.

But one should not forget that anything which looks too good to be true probably is too good to be true. Investors, as a rule, must be suspicious about any financial product offering abnormally high returns.

that too with a guarantee. Such a product will always have hidden costs. The cost at times may be in form of higher risk.

Buyback schemes are similar to assured return offers. Developers assure buyers that they will repurchase the property at a 30 to 35 per cent higher price, within a stipulated time, generally 18 to 36 months from the completion of the project. "After selling a real estate asset such as an apartment or an office, the developer offers to buy it back within a time frame at an assured rate of return. It is a good way to raise capital in a slow market," says Joy Sanyal, National Director, Strategic Development, JLL India, a real estate consultancy.

By doing this, the developer is trying to display his confidence that the price will rise to a certain level in the future. If it does not, the buyer can sell the asset back to the developer. This gives the buyer assurance that he is investing in a project that will be profitable. "Investors find such schemes lucrative because of the assured return. Considering the cyclical nature of the real estate industry, the scheme protects investors from the vagaries of the market," says Anshuman Magazine, Chairman and Managing Director, CBRE South Asia Pvt Ltd, a real estate consultancy.

"Some developers combine buyback and assured return features. For instance, a developer promises to buy back the property at a premium of 30-35 per cent and also give an annual return of 12 per cent a year for three years. The overall return comes to 60-66 per cent," says Rajan Ahuja, director, Realty Verticals, a real estate advisory firm. But investors should read between the lines and should not go by just the promised returns. Here, we look at things that may make such schemes less attractive than they seem.

Risks involved

No regulator for real estate: The lack of a real estate sector regulator means it is difficult for investors to take ac-



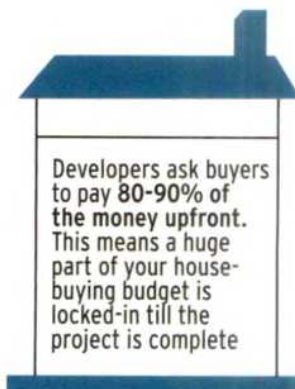
tion against developers for wrongdoing. "Lack of regulation often allows developers to get away with failed schemes, which sometimes remain only on paper, putting end-users' money at stake. If regulated on the basis of the development company's record, plus other aspects such as financials, such schemes can be a good tool for both developers and investors," says Magazine of CBRE.

No guarantee that the money will be used for the same project: It is not mandatory for developers to create escrow accounts for individual projects. An escrow account is the easiest way to ensure that the money raised for a project is not used for any other project. But there is no law which forces developers to do so. The buyer has very few options if the developer doesn't use the money for the project for which he has been paid.

Don't fall for guaranteed gains, stake can be high: Usually, under these schemes, developers ask buyers to pay 80-90 per cent money upfront. This means a huge part of your budget is locked-in till the project is complete. So, the risk if the developer defaults is very high. Project delay may also lower returns. That's why the buyer should link payments with stages of construction.

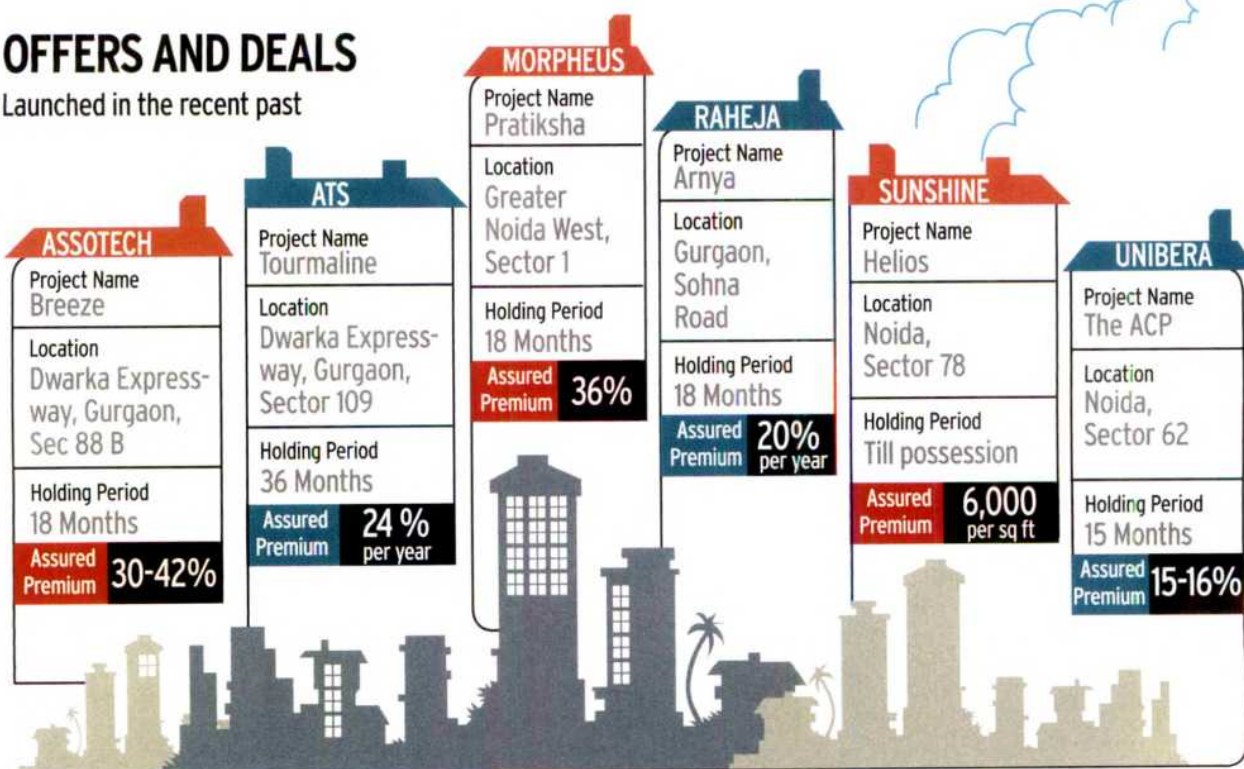
"Lack of regulation often allows developers to get away with failed schemes, which sometimes remain only on paper, putting end-users' money at stake"

ANSHUMAN MAGAZINE
Chairman & MD, CBRE South Asia



OFFERS AND DEALS

Launched in the recent past



New developer: These schemes are offered by developers whose main aim is to address cash-flow issues and enable sales, says Magazine. "Some new entrants offer unreasonable returns, which can neither be guaranteed nor paid. Only those who follow real estate market trends or have reasonable experience of real estate investing should subscribe," he says.

What should buyers do?

Look at the property's intrinsic value: The buyer should evaluate on his own or with the help of an expert whether the value of the property can rise as much as the builder is projecting. Will the property be worth the promised price? If not, he should doubt the developer's motive. The investor should find out about factors that can lead to a rise in the price of the property such as planned infrastructure in the area. Prices generally go up in a short span if the area is likely to be connected by metro rail or highway, or an industrial area is coming up nearby.

Check the record of the developer: Consider the track record, financial health and reputation of the developer. Check whether the developer has defaulted in the past. And, of course, whether he has been completing projects on time or not. "Even if the builder is trustworthy, the lock-in period may become a problem if you face a financial crunch and need to sell the property. This is because the developer may be the only person who can buy it from you, and he may do so at the same price at which he has sold it to you" says Vineet Kumar Singh, Business Head, 99acres.com.

Read the fine print: The buyer should check the fine print for hidden costs. "The investor should look into the agreement with the builder, which

should be watertight and cover his risks in case the developer does not have liquidity to pay at the required time. The buyback interest rate should be applicable on the entire amount paid by to the builder when he or she purchased the apartment and not just the base cost. The investor should also examine the post-tax returns," says Sanyal of JLL India.

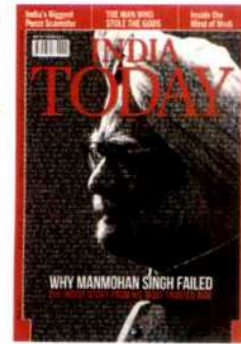
Most experts suggest caution. "The assured buyback basically converts the house into a financial product. These schemes can be very dangerous and sometimes almost in line with the Community Investment Schemes, which are illegal and on which SEBI has cracked down heavily," says Sanjay Sharma, Managing Director, QuBREX, a real estate consultancy and brokerage in Gurgaon.

So, buyers should not be lured by the returns alone. Their first aim should be to protect the principal. "If the scheme is designed well and offers a realistic rate of return, it can be good for both the investor and the developer," says Magazine of CBRE. ♦

Courtesy: Money Today



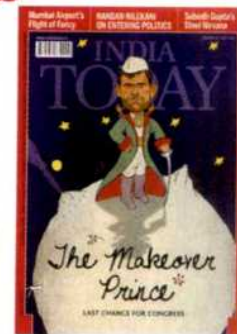
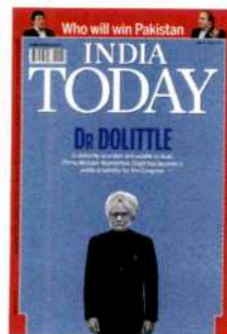
First to publish exclusive excerpts from the most controversial book of 2014, "The Accidental Prime Minister"
Why Manmohan Singh Failed, April 21, 2014



First to show why Kejriwal was going to change the political discourse in our country
The Contender, Newsmaker 2013, January 6, 2014

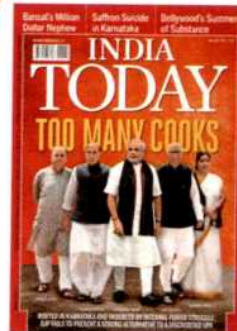
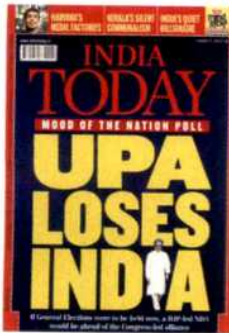


First to hint that Manmohan Singh would not be the PM again
Dr Doolittle, May 13, 2013



First to reveal the Congress makeover for Rahul Gandhi as the poll mascot
Makeover Prince, January 27, 2014

Three years before 2014 General Elections, we predicted the national outrage against UPA government
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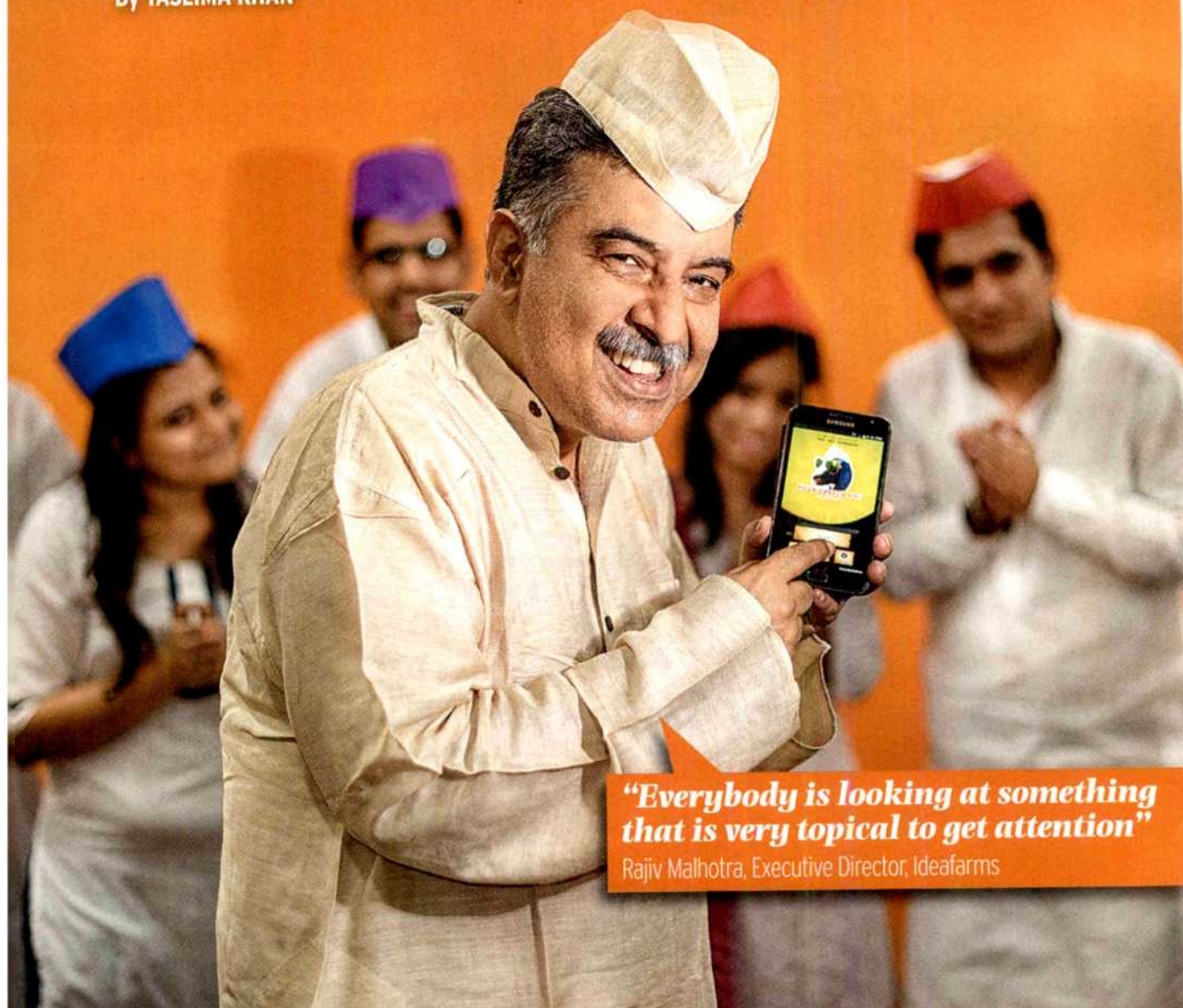
LEADERSPEAK **114**

VIVAN MEHRA

Appy Voting

Mobile and online apps, seeking to inform or influence voters, have been more active than ever before in this election.

By TASLIMA KHAN



"Everybody is looking at something that is very topical to get attention"

Rajiv Malhotra, Executive Director, Ideafarms



allies, rhetoric and debates continue to make noise on prime time TV this election season. But this time, the online world too is buzzing with election related content like never before. And along with the chatter on social media networks such as Twitter and Google, there are a host of innovative apps.

One such is *Kaun Banega PM?*, developed by Gurgaon-based Ideafarms, which boasts 2,500-plus downloads since its launch on March 14 this year. It gets gamers to predict India's next prime minister. "Everybody is looking at something that is very topical to get attention," says Rajiv Malhotra, Executive Director, Ideafarms, who developed the game for the makers of *Yeh Hai Bakrapur*, a Bollywood film slated for release in May. "The links to the movie trailers are embedded within the game as a promotional strategy."

Another game to choose the next PM is *Be a Millionaire*, launched by Kolkata-based Foreseegame in January. Here, the ones who get it right will win ₹10 lakh. The game has already attracted 50,000 players. "The entire process is monitored and vetted by leading audit and legal firms in India. We have a 100-strong team of professionals managing the entire platform," says Saurabh Newatia, Assistant Vice President, Marketing and Strategy, Foreseegame. He hopes to get at least 500,000 hits by the last day of polling.

"Apps are a new communication tool for politicians who are interested in communicating with people," says Dilip Vaman, Co-Founder and Director, Bullfinch Software. The start-up launched *India Election 2014 Candidates*, an election-focused app, on March 21, which has garnered about 1,000 downloads so far. The idea struck Vaman in February this year

after his company was approached by two MLAs—one each from the Congress and the BJP—to develop mobile apps that would help them connect with the voters in their respective constituencies.

India Election 2014 Candidates allows users to log in with their Facebook accounts and find the names and profiles of electoral candidates across all 543 Lok Sabha constituencies, besides historical data, such as who won from each seat in past elections. "People don't even know who their local MLA is. The information is available but is spread across the websites of different political parties and the election commission," says Vaman.

Mumbai-based iForIndia allows users to register with their mobile numbers and rate their MPs, MLAs and chief ministers' performance on parameters such as quality of basic utilities—water, transport and electricity—infrastructure, governance, jobs and women's safety. All the points accumulate to assign a report card to the candidate. Launched in August 2013, iForIndia has generated report cards for 98 per cent of the 543 parliamen-

tary constituencies, 73 per cent of the of the assembly constituencies (about 4,200 MLAs) and for CMs of all states and union territories. "To get more people on board, we are advertising on Facebook, which has a huge mobile audience across the country," says iForIndia's Founder Ankur Garg, who quit his job at Microsoft in September 2012 to set up the platform. The company also has plans to launch a mobile app version.

Founded by Vikram Nalagampalli in August 2013, Bangalore-based Voterite Software works as a social network that, among other things, allows voters to campaign for candidates of their choice among their friends on social media sites. The platform, which was used by Arvind Kejriwal's Aam Aadmi Party (AAP) for the Delhi elections last year, currently has about 30,000 registered users and is working with 60 candidates, creating their profile pages supported with videos and campaign slogans.

Last July, when Deepa Kumar, 23, a Political Science graduate from Mumbai's St. Xavier's College, spoke to politicians about organising Twitter chats or Google Hangouts to reach out to tech-savvy online voters, they gave her the cold shoulder. Things, however, are different now. "Everyone wants to woo voters online," says Kumar. Founder and Director of Mumbai-based GrassRoute India. Since it took off in June last year, GrassRoute has set up nine Twitter chats and six Google Hangouts for 10 politicians, including Milind Deora of Congress, Somnath Bharti of AAP and Jayaprakash Narayan of Lok Satta.

The level of engagement in these sessions depends on the topic. For a one-hour chat with Rajya Sabha MP Rajeev Chandrasekhar on *Youth participation and governance issues in politics*, tweets reached 8.8 million people, and for the one on *How corrupt is our sports administration* with AAP's Rahul

"Apps are a new communication tool for politicians who are interested in communicating with people"

Dilip Vaman, Co-founder, Bullfinch Software, which created the app

India Election 2014 Candidates

Launched in March 2014

1,000
(Downloads)

Be a Millionaire

Launched in
January 2014

50,000
(Downloads)

Kaun Banega PM?

Launched in
March 2014

2,500
(Downloads)

ModiMan

Launched in
February 2014

5,000
(Downloads)

mpConnect

Launched in
November 2013

1,500
(Downloads)

Mehra, they touched 1.25 million. GrassRoute also markets mpConnect, an Android and iOS mobile application, which allows users access to contact details of MPs or MLAs and connect with them right from the app.

With almost 37 per cent of the 200 million online citizens eligible to vote, Sandeep Menon, Director, Marketing, Google India, says that his company is trying to keep Indians informed about the political scenario in the country, keep them engaged and, most important, inspire them to vote. "Outside of the US, this is Google's most comprehensive initiative around elections," says Menon on Google's *Pledge to Vote* campaign launched on March 24.

Anyone who visits Google.co.in/elections will come across a host of tools such as the *Pledge To Vote*, which not only enables people to express their pledge to vote, but also lets them view why citizens across the country are doing the same. While some citizens have pledged to vote for a corruption-free India, others have pledged to do so

for a safe and peaceful country. There is also a Google Score tool which gives daily information on the most talked about politician, whose video interviews

have been most watched on YouTube and so on. As of March 31, Google Score showed that BJP's prime ministerial candidate Narendra Modi was the most searched politician followed by AAP's Kejriwal.

Meanwhile, Rishi Jaitly, India Market Director, Twitter, claims that there has been a 600 per cent increase in the level of political conversations in India on Twitter in the last one year. "There has been a 10x increase in political parties and candidates on Twitter. There are a billion tweets on Twitter every two days about the polls," he says. Twitter offers promoted tweets as well as accounts which are being actively used by political parties and candidates to amplify their message. In fact, it also has a designated official in Delhi whose job is just to help political parties reach out to voters through Twitter. Apart from political parties,

Twitter has also been actively working with a business newspaper and news channels for election coverage. "... The growing role of Twitter in elections was also seen in the state elections held in Delhi and elsewhere earlier," says Jaitly.

While the politicians are excited about connecting with people now, the enthusiasm may taper off after the elections. Some intend to use apps to ensure this does not happen. "My mandate starts after the elections when we will get MPs to connect with people on the handling of the affairs of their constituencies and making them accountable," says GrassRoute India's Kumar. In the next few months, she wants to add details on the performance of MPs in Parliament to the app – how they participated in debates, which parliamentary standing committees they are part of, etc. Garg of iForIndia, on the other hand, plans to monetise his platform by partnering with a TV channel to develop a programme around the content. ♦

ADDITIONAL REPORTING BY
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Graduating with more than Honours

Top companies are going beyond B-schools to recruit graduates from leading colleges. By ARUNIMA MISHRA

They are barely 20. They have yet to graduate from Delhi's prestigious Shri Ram College of Commerce (SRCC). (The average age at which students graduate in India is 21.) Yet, according to SRCC's placement cell, nine of its students have been hired by global banking major Deutsche Bank with an attrac-

tive annual pay package of ₹15 lakh.

According to job portal Naukri's latest Hiring Outlook, there is buoyancy in hiring activity for freshers and entry-level employees in 2014, with IT and pharma hirers leading the way. This is in contrast to the July 2013 survey in which the maximum numbers of jobs available were for professionals with four-to-eight years of experience.

But it's no longer only business schools that recruiters are flocking to for fresh hires. Top companies, mainly in the field of audit, consulting, IT, as well as start-ups, are now targeting graduate schools as well with lucrative offers. These include premier undergraduate, or Tier-I, colleges such as St. Stephen's College, Lady Shri Ram (LSR) College for Women and SRCC in Delhi; St.

**YOUNG
GUNS**

Offers at top colleges at the undergraduate level (per annum)

₹15

lakh highest offer at SRCC Delhi (by Deutsche Bank) Average: ₹7.5 lakh

₹13

lakh highest offer at LSR, Delhi (by McKinsey & Co) Average: ₹7 lakh



All smiles: Students at Delhi's LSR College. Recruiters from top companies have been targeting them

SHEKHAR GHOSH/www.indiatodayimages.com

HR, Godrej Properties Ltd, says five years ago, his company recruited only three trainee executives from UG colleges. In the last three years, the figure is up to 55 and next year alone, the graduate trainee figure will be 40. "They are raw talent with a lot of fire in their bellies and consistently show energy, passion and drive. They want to pursue higher education. They have an open mind, while management trainees (with more than three years experience) develop strong choices and they are not very flexible in terms the work they want to do."

Recruiters seem to prefer big cities when it comes to hiring. Says Aditya Narayan, President, Staffing, at recruitment firm Randstad India: "UG students in the metro cities are more aware, well-informed and many companies have their headquarters in these metros."

In 1999, McKinsey & Company, a global management consulting firm, hired from only two campuses. Now, the figure is up to around 15. This year, KPMG, a global professional services firm, went to around 25 top colleges, a 25 per cent increase over last year. PwC, one of KPMG's competitors, conducted interviews at approximately 20 campuses this year. Says Shalini Pillay, Head of People, Performance and Culture (PPC), KPMG: "The number of hires from premier graduate colleges in KPMG in India went up by almost 50 per cent this year as compared to the previous year. We expect to have more than 250 recruits this year."

Of the batch size of 700 students at SRCC, 450 to 500 showed interest in placement and around 325 have already been placed this year as compared to 230 last year. At Kolkata's St. Xavier's College, 430 students have so far been placed, while the figure stood at 380 last year.

Parsheen Irani, Placement

Coordinator at H.R. College of Commerce & Economics, says since December 2013, the college has hosted 28 companies on campus and facilitated six off-campus placements. "Six new companies participated in the 2013/14 placement season." Irani adds that most students placed in big companies complete two years and then opt for further education or entrepreneurial ventures.

At LSR, 121 job offers have been made this year. The college attracted companies such as McKinsey, Monitor Group, Bain Capability Center, KPMG and PwC, among others. Kanika K. Ahuja, Faculty Advisor, Placement Cell, at LSR, says: "Usually, students from streams like Commerce and Economics get maximum placements. Students who are not just academically bright, but have had an extensive extracurricular and co-curricular experience click better." On whether these students are the top five per cent of a batch, Ahuja says: "It is difficult to say if the students who have got placed are top five per cent as many students go on for higher studies." Mascarenhas of St. Xavier's College – Autonomous echoes Ahuja's sentiment and says the placement process is not only for the top five per cent but it's meant for all students equally. "We are making a conscious effort to bring in all categories of companies too."

Speaking of categories, some colleges have categorised the companies based on the annual pay packages offered by them. At LSR, the companies are categorised into three groups – Blue, Non Blue and Super Blue. Companies offering below ₹8 lakh are categorised as Non Blue, ₹8 lakh and above are categorised as Blue and, in exceptional cases, a few companies will be listed as Super Blue on the basis of higher pay package and job profile.

₹10-12 lakh, highest offers at St. Xavier's College, Mumbai

₹12 lakh highest offer at St. Xavier's College, Kolkata. Average: ₹6.5 lakh

₹6 lakh highest offer at H.R. College of Commerce & Economics, Mumbai. Average: ₹4.5 lakh



For videos of SRCC students discussing career placements, log on to www.businessday.in/srcc-careers

B.K. Goyal, Convenor, Placement Cell, SRCC, says: "We have divided it in different categories—₹12 lakh-plus offered by super dream companies, which have recruited 10 to 12 students. While ₹8 lakh to ₹12 lakh is offered by dream companies, others come under non-dream companies."

Meanwhile, EY (earlier known as Ernst & Young), a leading global professional services organisation, has a tie-up with Indian School of Business (ISB), Hyderabad. Graduates from around 30 colleges, who join EY as analysts can opt for a two-year MBA programme that is equivalent to the one-year MBA that ISB offers. "The fee is being paid by the firm (EY) and it is lower than what an individual has to pay for the same course (in ISB)," says Sandeep Kohli, National Director (HR), EY.

Job profiles depend entirely on the core subject in the UG programme. Experts say there are a high percentage of commerce students followed by business, economics and arts graduates. Says Mark Driscoll, Human Capital leader, PwC India: "A BCom graduate, for example, will be primarily offered a position with the tax and regulatory, financial effectiveness, risk management, internal audit, and to an extent with our assurance practice. It's a simpler and effective job talent match where the candidates have a clear idea of their job profile and career paths." He also says that to keep them engaged, it is important for leaders to act as their mentors and help them learn the nuances of the business, while focusing on their long-term aspirations as well.

The number of recruiters flocking to UG colleges is no different from



SHALINI PILLAY, Head of People, Performance and Culture, KPMG

"The number of hires from premier graduate colleges in KPMG in India went up by almost 50 per cent this year as compared to the previous year. We expect to have more than 250 recruits this year"

those visiting B-schools. To cite an example, about 100 companies have visited LSR campus this year for placement and internships, while at the premier B-school XLRI, Jamshedpur, the final recruitment process saw participation from 103 recruiters.

So, how are UGs different from B-school students at work? PwC's Driscoll terms the former as 'Explorers' and the latter as 'Discoverers'. "Most of them (the UGs) are more or less through with their studies and now want to discover what the corporate world has to offer. With B-school students, the focus needs to be more on the career

path and the possible opportunities which could excite them. Though even they need a mentor, most B-school passouts are clear about their direction. On the contrary, graduates need more guidance on what direction they can possibly take based on their competence, aspirations and most importantly their areas of interest." For Professor Michael Gibbs, Faculty Director, Executive MBA Program, The University of Chicago Booth School of Business, graduates and MBAs are very different types of employees. "MBAs are at a higher level but lower numbers, while college graduates are at the entry level but in higher numbers".

Hiring specialists say the attri-

tion rate remains more or less the same or slightly higher in the case of graduates. Randstad India's Narayan says: "The cost of attrition is less for a postgraduate/MBA hire. Students don't hesitate to go for higher studies and the comfort zone of being in a job has been reduced than what it was a decade ago."

KPMG's Pillay sums up by saying that every year stories of graduates receiving top offers could very well mean that the students in graduate colleges are, in some way, comparable to a certain level of students in top B-schools. ♦

@Mishra_Arunima

THE B LEAGUE

Annual offers at top B-schools (PG level)

₹40

lakh offered for PGP (2014) at IIM Bangalore (Average: ₹17.4 lakh)*

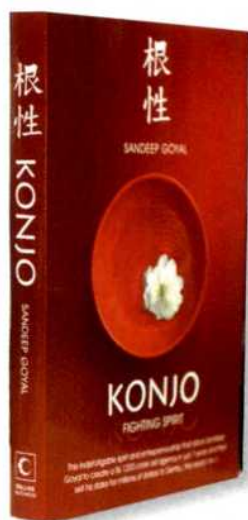
₹23.36

lakh offered for PGPM (2014) at MDI, Gurgaon (Average: ₹14.74 lakh)

*Domestic salary figures: PGP: Post Graduate Programme in Management; PGPM: Post Graduate Programme in Management

A Samurai from Chandigarh

Advertising veteran Sandeep Goyal is disarmingly frank as he recounts his years with Dentsu



Konjo: Fighting Spirit

By Sandeep Goyal
Collins Business – An
Imprint of HarperCollins
Publishers India

Pages: 298; Price: ₹299

He is an acquired taste,” goes the wry quip from a senior advertising veteran about Sandeep Goyal, the man who brought Dentsu, the Japanese ad behemoth, to India, acquired a stake in it which he eventually sold for an estimated ₹240 crore. Goyal is a Punjabi go-getter or, as he describes himself, “the small town boy from Chandigarh”, who many purists in advertising love to hate – indeed, for all his achievements, he would have as many critics as loyalists. His detractors hate him for the tough bargains he drove, the bitter battles he engaged in while wresting his share of the pie – much like the Sumo wrestlers he discusses in his recent book.

In *Konjo: Fighting Spirit* Goyal starts from the time he crash-landed in the early 2000s after having been toasted as the highest-paid CEO in the country (at Zee TV). To rebuild himself, he trotted off to Japan to secure Dentsu’s investment. The book captures eight years of his life – from the time he began pursuing the joint venture with Dentsu to his exit in 2011. In doing so, he takes the reader past the virtually closed doors of Japanese business. He also tells you exactly how ad folks mesh strategies with celebrities – using examples such as Aamir Khan endorsing the Toyota MUV Innova or John Abraham appearing in the Yamaha bike ad.

Stories tumble out, one after another, about numerous pitches and misses Goyal was involved with, and shows how advertising is not for the faint-hearted. He tells you about the mess that came about while establishing an office in Mumbai to service the HDFC Standard Life account; how his team created the enduring *sir uttha ke jiyo* (‘live with your head held high’ in Hindi) campaign, and eventually why and how he

got out of the ad business.

There is also an engrossing narrative around the Indian Premier League (IPL) and Goyal’s daring pitch to work with Sony Entertainment Television (SET), even as he was aware of how Lalit Modi, former IPL commissioner, harboured an old grudge against him. He freely admits to holding back a ₹28-crore payment to the channel after it rescinded on its MoU and the eventual settlement that followed.

Goyal holds back no punches even while talking about other, much admired industry veterans – be it Piyush Pandey of O&M, Colvyn Harris of JWT, or Arvind Sharma of Leo Burnett, among others. There is also a detailed story of Goyal’s bid to head the Advertising Agencies Association of India. And why did he finally opt out? “I reached a stage where all I was doing was work, work, work and slog, slog, slog. It also meant win, win, win and success, success, success,” he writes.

Goyal is a fine raconteur. Here is his description of the controversial public relations diva Nira Radia, who handled, among others, the Tata account: “She was nothing like anybody I had ever met before. Of average height, she looked as if she was constantly struggling to keep her weight down. Her make-up in dark pastels matched her smart designer business suit. She had an air of supreme self-confidence. Her hearty laugh was infectious,” he writes.

Anyone interested in marketing, media and the communications industry will relish this book. It helps answer the question: what really happens in the Indian ad industry? Advertising, they say, is the “maximum fun you can have with your clothes on”. So, go figure out if you have the stomach for it. ♦

SHAMNI PANDE

Stories tumble out, one after another, about numerous pitches and misses Goyal was involved with, and shows how advertising is not for the faint-hearted

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Hyderabad / Secunderabad**Job ID:** 14754336**Description:** Responsible for setting Live Bakeries in food courts within the bazaar/pantaloons/ Central Malls.AMADEUS
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Gati Kintetsu Express Private Limited
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Description: Developing new business and increasing strength of retail business.



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Jason Sadler
President, Cigna Global Individual

Healthy Outlook

Four years ago when **JASON SADLER** had to opt between Turkey and India for starting his company's operations, he chose the former because of that country's easy regulations. Cigna, the US-based health services organisation with presence in 11 countries, including China, South Korea and Indonesia, has finally entered India in partnership with TTK Group. Mumbai-based Cigna TTK Health Insurance is now the fifth standalone health insurer in the country. But Sadler, 46, will not go the whole hog to launch products. "India is an attractive market with a growing middle class and rising disposable income, but we will stick to products related to health care," he says.

MAHESH NAYAK



Sébastien Bazin on Accor's expansion plans in India at www.businesstoday.in/bazin-accor Also video interview

Room to Grow

More than seven months after taking over as the head of French hospitality chain Accor, **SÉBASTIEN BAZIN** recently visited India for the first time. Bazin, 52, who is extremely bullish on India, says: "If you want proof of why hotel operators are ambitious about India, just look at the new airport facilities in Delhi and Mumbai..." Accor operates 25 hotels in India and plans to double its network in the next two years. "India, along with China, provides the biggest growth prospects in the Asia Pacific region. We intend to be in the top two-three in India," he says.

MANU KAUSHIK



Sébastien Bazin
Chairman and CEO, Accor

VIVAN MEHRA

RACHIT GOSWAMI



Vikram Malhotra
MD and CEO, Abundantia
Entertainment

Abundance of Ideas

VIKRAM MALHOTRA, former chief operating officer at Viacom 18 Motion Pictures, is one of those filmmakers who firmly believes in the power of good content and not so much on big-budget films.

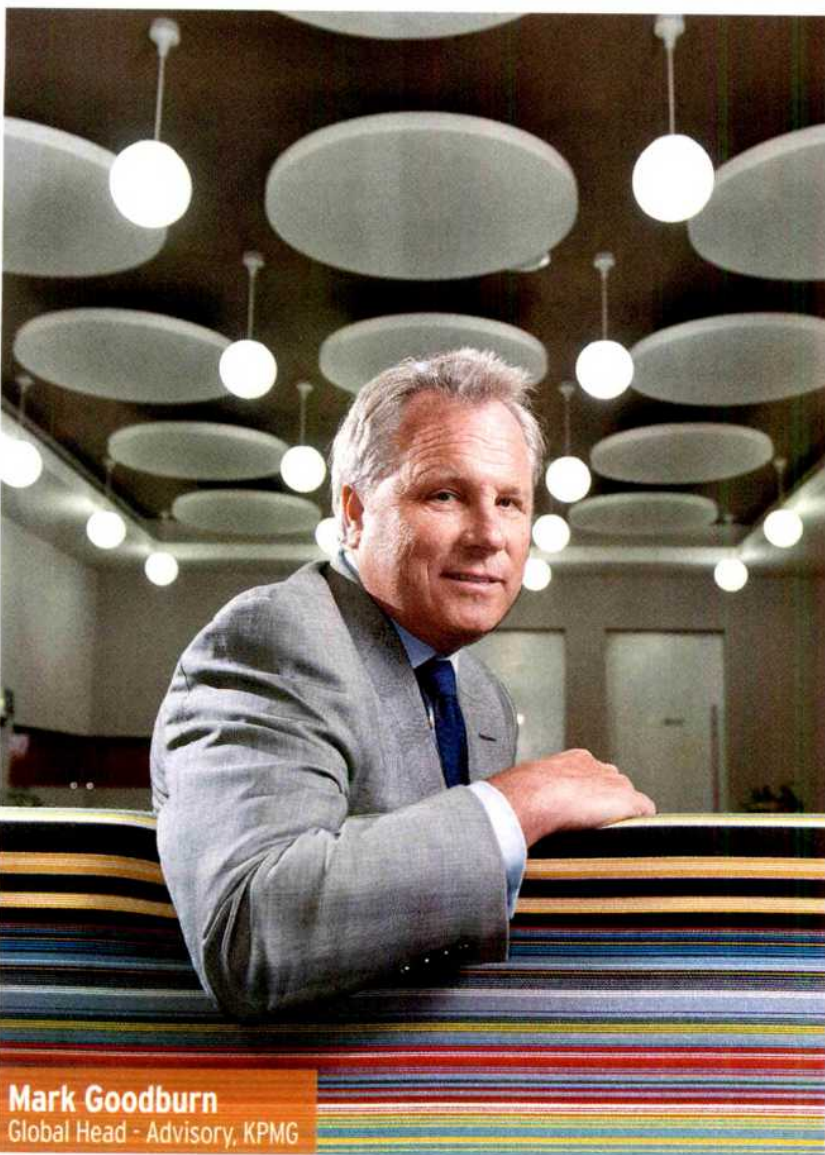
When he betted on *Tanu Weds Manu* – starring R. Madhavan and Kangana Ranaut – as the first film under the Viacom banner, there was a fair bit of scepticism. When the film went on to become a box-office hit even without a crowd-pulling star cast, the studio under Malhotra's leadership decided to do films where the content outshined star power. Even the recent Viacom hits such as *Bhaag Milkha Bhaag* and *Queen* have been greenlit by Malhotra. In his new avatar as the CEO of his own company, Abundantia Entertainment, Malhotra's vision is to become a premier content destination of India, where he would create content for films, TV and digital platforms.

"I am going to incubate films, invest in script and talent and then bring in downstream partners for marketing and distribution."

AJITA SHASHIDHAR



Video interview with Vikram Malhotra at www.businesstoday.in/malhotra-abundantia



RACHIT GOSWAMI/www.indiatodayimages.com

Mark Goodburn
Global Head - Advisory, KPMG

Global Mindset

MARK GOODBURN was recently in India to chair his company's global advisory executive meeting. The country, which hosted the meeting after three years, has been one of the fastest-growing markets for the leading professional services firm, expanding at 20 per cent. Goodburn took the opportunity to connect with more than 20 CXOs and gain insight into their plans and their perception on international markets, as he feels all enterprises are impacted by global trends, irrespective of their industry or geography. "Operational efficiency and profit improvement has taken centre stage in corporate boardrooms and our conversation with clients and industry leaders is on how to deal and stay ahead of the curve in a globalised economy," he says. "Technology has transcended geographies... KPMG's intervention is across the business continuum of growth, preservation and governance."

MAHESH NAYAK

The Happy Traveller

His travel philosophy is for people "who do not want to confine to traditional". **BRUCE POON TIP**, the Canada-based travel enthusiast, now plans to add depth to his India offerings. He recently announced a tie-up with Ezeego1, an online outfit of Mumbai-based travel company Cox & Kings. The idea is to offer new experiences to Indian travellers, such as marine, ski and cultural tours, among others. His company, G Adventures, has a presence in 100 countries across all seven continents and serves 100,000 people annually.

MANISHA SINGHAL

Bruce Poon Tip
Founder, G Adventures



NISHIKANT GAMRE



Video interview with C.K. Kumaravel at
www.businesstoday.in/kumaravel-naturals

C.K. Kumaravel
Co-founder and CEO, Naturals

Following the Natural Course

C.K. KUMARAVEL wanted to start a business for wife Veena, and this is how Naturals, now one of India's leading unisex hair and beauty salons, was born in 2000. (Veena holds a 90 per cent stake in the business.) From ₹60,000 a month in the third year, Naturals has expanded to clock ₹250 crore in revenue last year. The company had only seven salons in the first seven years, but in the last seven years, the figure has risen to 350-plus. Naturals, which has just 17 salons in north India, plans to take the number up to 100 by the end of the current financial year. "We will open 650 stores across India, which will be the highest in Asia. Besides we will be opening 50 salons in the UAE (United Arab Emirates) and GCC (Gulf Cooperation Council) region this year," says an optimistic Kumaravel. Recently, Naturals signed a memorandum of understanding with Bharatiya Mahila Bank, the first all-women bank in the country, to help women explore their entrepreneurial skills. Kumaravel wants his company to help create 1,000 successful women entrepreneurs and also generate 50,000 jobs.

ARUNIMA MISHRA





VIKRAM LIMAYE

MD & CEO, IDFC Ltd

My first role model

The success stories of middle class personalities from where I live in Shivaji Park (Mumbai) had a profound impact on me when I was growing up – patriots like Savarkar, eminent sportsmen such as Vijay Manjrekar and Ramakant Desai are some examples. There are many others in music, arts, education, etc. I have been fortunate in my professional career to meet several outstanding professionals but those that I have tried to emulate are the ones who have also been outstanding human beings

My first job

Arthur Andersen, where I started my articleship after BCom

My first boss

The way the services industry is structured requires you to work with multiple people depending on the client and the engagement. I have been fortunate to work and learn from many outstanding professionals in India and abroad

My first promotion

I was promoted to a Senior Associate at Andersen when I was doing my articleship

My first disappointment

At 17 I decided not to pursue my passion for the Indian Navy as a career because I wasn't really interested in the sciences, which was a prerequisite

Photo by Rachit Goswami
As told to Goutam Das

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THE BIGGEST INNOVATIONS THIS CENTURY AND HOW THEY WERE EXECUTED



THE
INDIAN PREMIER
LEAGUE p46

HOW TATA ACED
THE SMALL
TRUCK MARKET p56

NARAYANA HEALTH
IN THE PINK
OF HEALTH CARE p62

HOW BAJAJ'S TWO
SPARK PLUGS IGNITED
A REVOLUTION p68

THE ONE-PAISA-
PER-SECOND FILLIP
IN TELECOM p74

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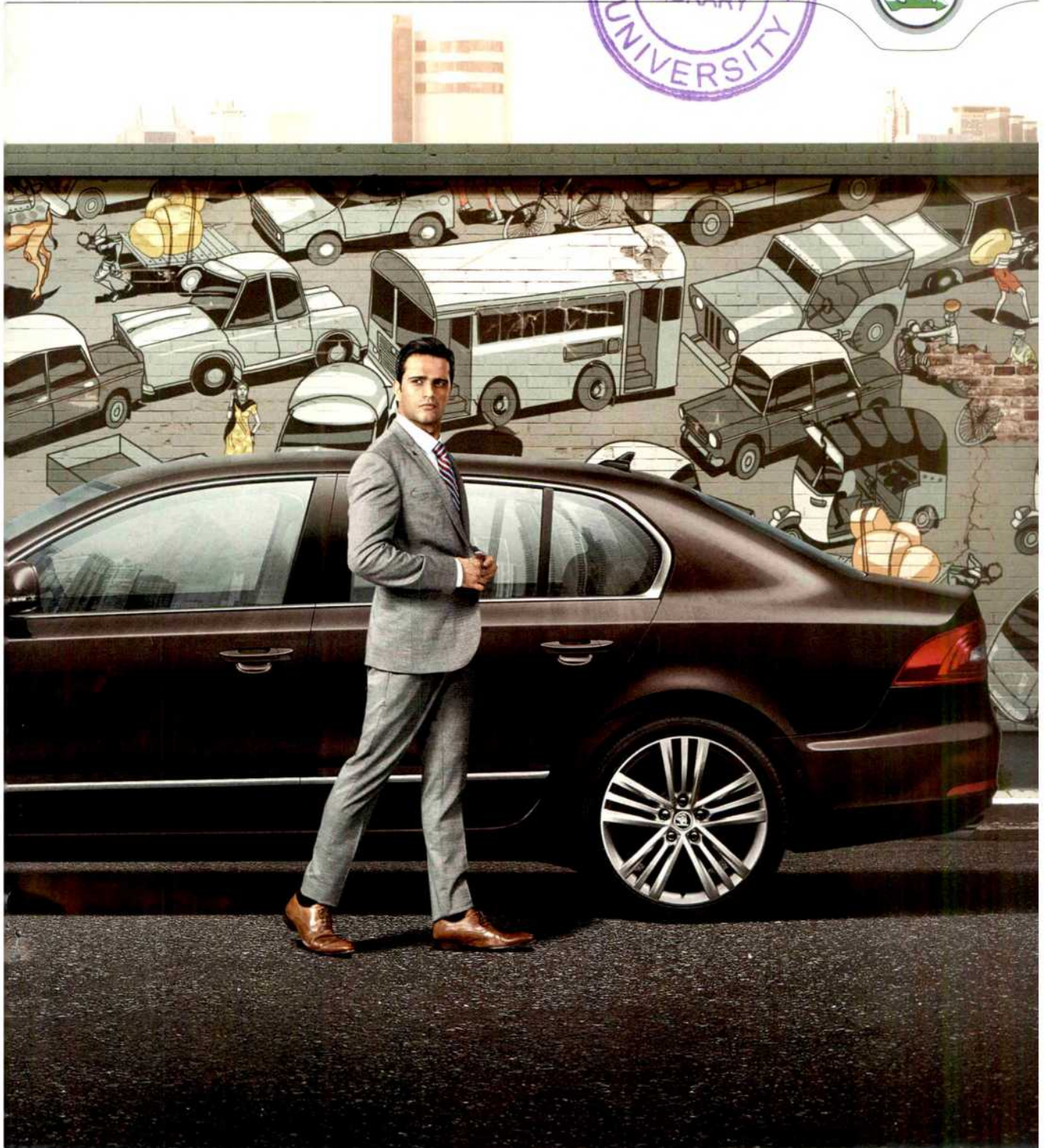
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p102

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THE BIGGEST INDIAN INNOVATIONS THIS CENTURY AND HOW THEY WERE EXECUTED

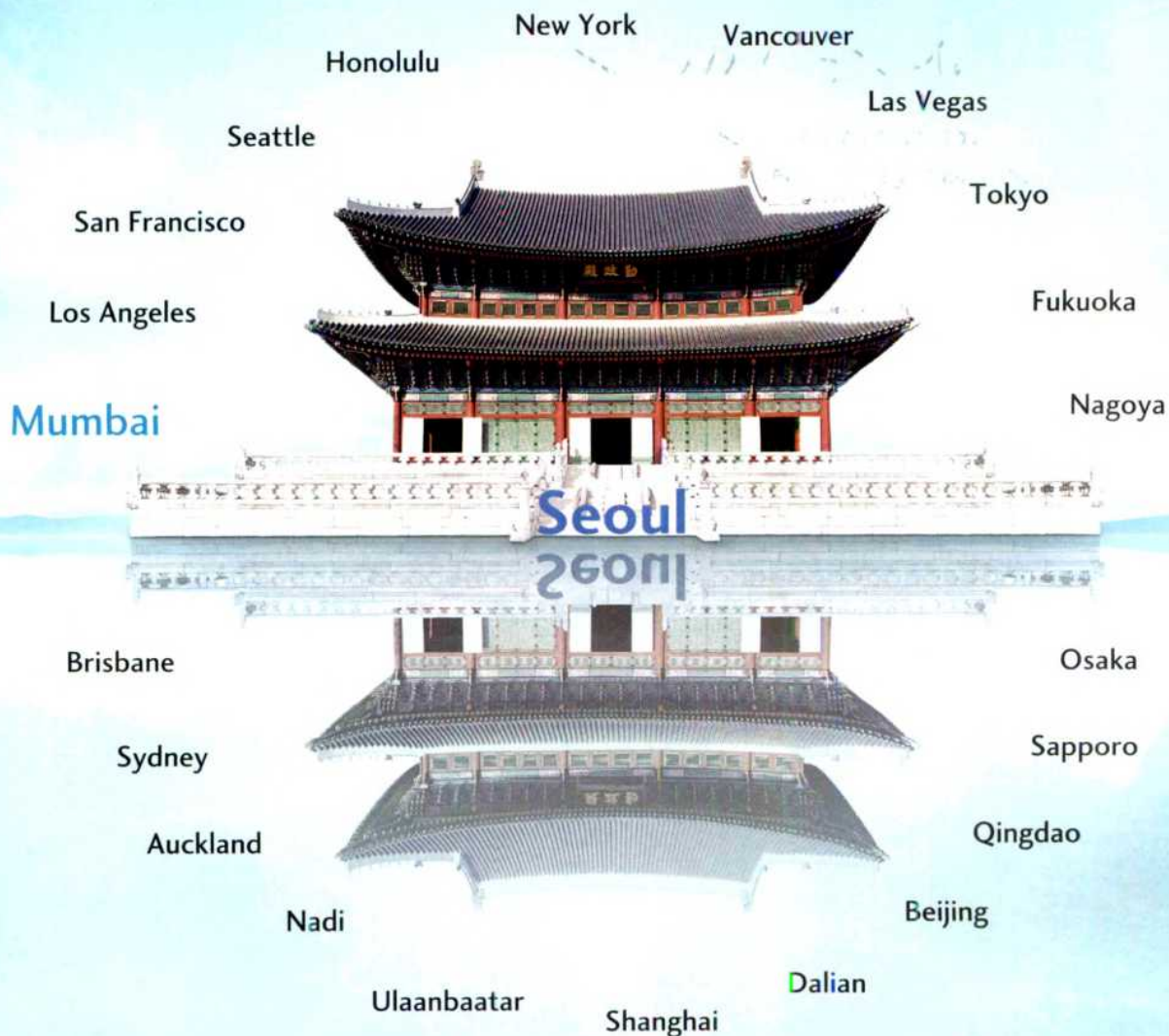
**THE
INDIAN PREMIER
LEAGUE** p46

**HOW TATA ACED
THE SMALL
TRUCK MARKET** p56

**NARAYANA HEALTH
IN THE PINK
OF HEALTH CARE** p62

**HOW BAJAJ'S TWO
SPARK PLUGS IGNITED
A REVOLUTION** p68

**THE ONE-PAISA-
PER-SECOND FILLIP
IN TELECOM** p74



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It's the Execution, Dummy

For all the sexiness that a great idea lends to a stellar business, there is usually a not-as-sexy backstory of well thought-out, and at times long drawn, execution of that idea that results in a solid enterprise. History is full of such examples. The most talked about among these is how Apple and Microsoft got their chops in their early days copying the so-called graphical user interface (GUI) from Xerox's Palo Alto Research Center. GUI as in an icon-based operating system worked upon via a mouse as different from the keyboard-controlled computers of the 1970s. Xerox introduced a GUI-based personal computer in 1981, but the product was a disaster and Xerox withdrew from the PC space soon. Apple, under Steve Jobs, worked on the idea for three-four years before introducing its first Macintosh computer in 1984. Microsoft came up with its first GUI-based operating system in 1985, but it took five years to perfect it. Both companies haven't looked back. Xerox's valuation today is about \$14 billion, a fraction of Apple's \$510 billion and Microsoft's \$330 billion.

There are plenty of other examples of early birds missing the worm. Philips invented the magnetic cassette but Sony reaped most value from it via the Walkman. Thomas Edison was the first out with electricity but it was in direct current that couldn't transmit power very far. An engineer by the name Nikola Tesla saw the flaws with Edison's machines and came up with designs for alternating current generators, which with the help of George Westinghouse changed mankind forever. Back to Apple: the iPod was not the world's first portable MP3 player. The point is simple: when it comes to innovation, the idea is just the starting point. If innovators don't get execution right, their idea is destined to be roadkill.

At *Business Today*, we get as excited as anyone when talking innovation. Who wouldn't marvel at a telemedicine model that takes health care to a village without electricity? Or, grow a business of a few million customers 20-fold at 5x the cost? Or, deliver drinking water at less than five paise a litre through a massive reverse osmosis plant? We have chronicled these and more in the past. For this year's innovation special (we've done five in the past), we decided to focus on how important diligent execution is for successful innovation. Senior Editor N. Madhavan, who led the project, whittled down names from a long list to five successful examples: IPL in cricket, the Tata Ace carriage vehicle,

Bajaj's twin-spark engine, Tata DoCoMo's one-paise-a-second phone calls, and Narayana Health's (better known by its earlier name, Narayana Hrudayalaya) assembly line surgeries. Some of these innovations have been copied and the impact is more on the industry than the company – for instance, Tata DoCoMo – but the stories of their execution make for compelling reading. Turn to page 44 for an instructive set of stories, including one from *Harvard Business Review* on how DARPA (short for the US's Defense Advanced Research Projects Agency) innovates. And, don't miss the multimedia package at www.businessstoday.in/innovation2014 that extends what we do fairly well at *Business Today* – tell unique stories with rich detail.

Of course, we have other nice reads, too. Page 102 has the story of Essel's Subhash Chandra setting the stage for his two sons to take over; on page 36, we list the big capital projects ready to be turned on in the coming months potentially giving the economy a leg-up; and a story on how India's foreign and trade policies could change if Narendra Modi becomes prime minister (page 32).

In my last letter, "Manhole Ahead, Mr PM Sir", I talked about how fragile India looked as the global economy turns sluggish. That outlook remains bleak with tensions rising over Ukraine (Russia supplies about 30 per cent of Europe's gas demand) and unexpectedly slow GDP growth in the US in the January-March quarter. Keep your fingers crossed. Mine are.

Josey Puliyenthuruthel
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Vol. 23, No. 10 for the fortnight May 12-25, 2014.
Released on May 12, 2014.

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Challenge Ahead

Your cover story (*Guns and Roses*, May 11) provides a good narration of how Vodafone chief Marten Pieters overcame the trauma of a terrorist attack to steer Vodafone India into profit. Facts and figures have been highlighted in a systematic and chronological manner. Vodafone's M-Pesa platform in India is a huge success. But its bid to enter into the enterprise space – a new focus area – will be a chal-

lenge. Hope Vodafone succeeds.

Thakur Dass, New Delhi

Modi's Priorities

The feature on Narendra Modi (*Falling in Line*, May 11) has succinctly captured the mood of foreign investors. While they accept Modi as an able administrator, they are worried about his "nationalist" views. Still the majority prefers dealing with a strong Modi than the UPA government. Surely, Modi's first priority should be turning around the economy, lifting the policy paralysis and improving the disturbing power situation. FDI in retail, I feel, is not his priority for now. Good relations with the western world definitely are a priority.

T. Anoop Raaj, Chennai

Fund of Optimism

The story on fund managers (*Waitin' on a Sunny Day*, May 11) was quite analytical. Fund managers turning bullish towards the Indian capital market is a good symptom for the Indian economy. This situation has come after a long period of waiting. Also, mar-

kets have risen on their own fundamentals amid uncertain political conditions. So, for India, a healthy stock market is much more necessary, because it will pave the way for rapid industrialisation and employment. The Rising BSE Index graph shows India's economic rise and freedom which should be maintained well.

Akhilesh Kumar Sah, Faizabad

Why UP Lags Behind

The question – why Uttar Pradesh fares poorly on socio-economic parameters (*Underperformer*, May 11) – may be haunting many minds in the country. Because, if UP prospers, India will. But the feudal mindset, backwardness in education, caste and communal rivalry, defects in governance, and poor decision making have badly damaged the spine of state's economy. In any case, there is an urgent need to consider dividing the state into a few smaller administrative units, to enable it to regain its lost glory.

Jacob Sahayam, Thiruvananthapuram

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Gautam Adani says he has got no sops from Modi. Then why free ride in plane/helicopter for Modi?

- **Asish Sharma**

India and Switzerland are looking at ways to share information on black money: Chidambaram

Government has been discussing the issue since last 10 years. When will the real action follow? - **Suresh Hemadri**

We are willing to accept even ₹100 as deposit, says Bandhan CEO Chandra Shekhar. The Sonalika brand, in late 1990s, had started in a very modest way in a market which was dominated by few biggies. But over a period, it forced many of major brands to review their strategies. And today we all know where it stands in terms of market share. - **Ashish Kumar**

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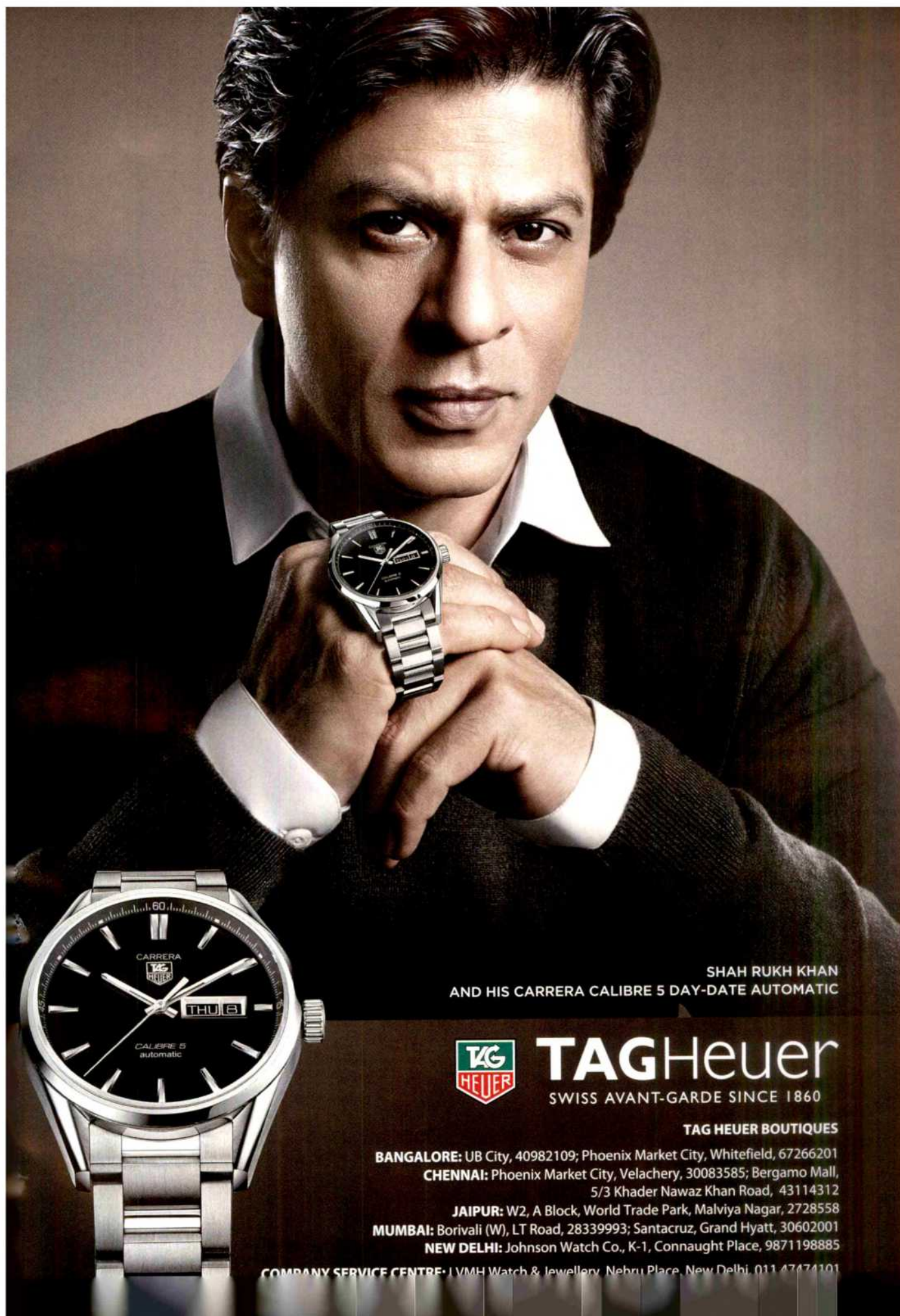
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CONTENTS

COVER BY ANAND SINHA

MAY/25/2014
VOLUME 23/NUMBER 10

COVER STORY

INNOVATION = IDEA + EXECUTION

It is diligent execution that transforms an innovative idea into a commercial success

62

NARAYANA HEALTH:
Compassionate
Heart, Business Mind



TATA DOCOMO:
A Matter of Seconds

BAJAJ DTS-i:
Bright Sparks

68

74



GRAPHIC STORY: 10
Myths About Innovation

80

56

TATA ACE:
Small Is Dominant

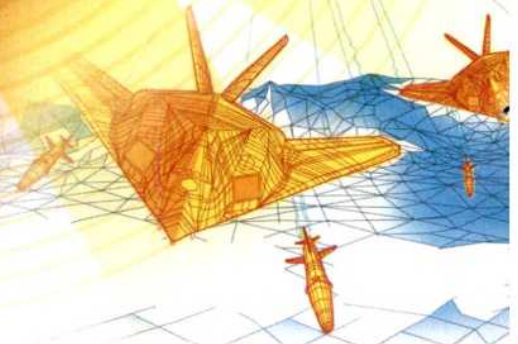
IPL: League of
Notions

46



HBR: How
DARPA Attacks
Problems

84



Trade Winds of Change

The trade and strategic moves we can expect if the BJP forms the government with Narendra Modi as PM

32



UPFRONT

16 | Quick takes on major events



FOCUS

20 | Little Reason to Worry

This year's monsoon is expected to be below normal, but with a little luck, we won't have a drought

22 | The Good, the Bad and the Ugly

Iron ore mining ban in Goa goes but difficult times continue for the miners



23 | Blessing in Disguise

The apex court decision to let CAG audit private telecom companies may be a step in the right direction

24 | Stealing the Overseas Show

For the first time since 2007/08, steel exports outstripped imports last year

26 | Graphiti:

Life in the Slow Lane

FEATURES

36 | On the Right Track

Several large infrastructure projects are almost ready to start operations. This bodes well for a new government and, potentially, the Indian economy

96 | No Small Change

Modern retail may not be a threat to its existence, but your neighbourhood kirana shop is spilling things up anyway.

102



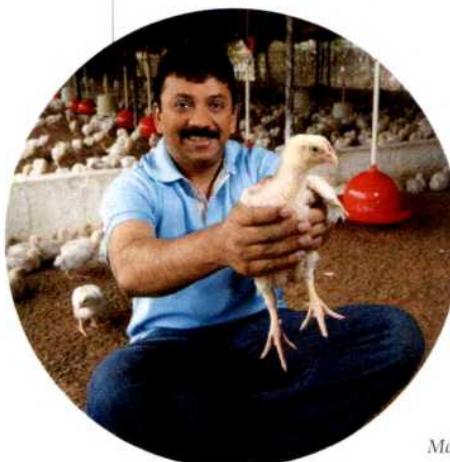
102 | Passing the Baton

Subhash Chandra has divided up his \$3-billion empire between his two sons, Punit and Amit Goenka. That was the easy task. Growth's next

112

112 | Amazing

Maize production is growing faster than that of all other cereals, thanks to its growing demand as poultry feed, as well as for human and industrial consumption



118

MONEY 118 | Gold-Plated Investments

Gold buying schemes offered by jewellers make little sense as investment options

LBNL

120 | A Growing Olive Branch

This Mediterranean fruit has begun thriving in Rajasthan



BOOKEND

125 | Is Winning Everything?

130 | PEOPLEBUSINESS

LEADERSPEAK

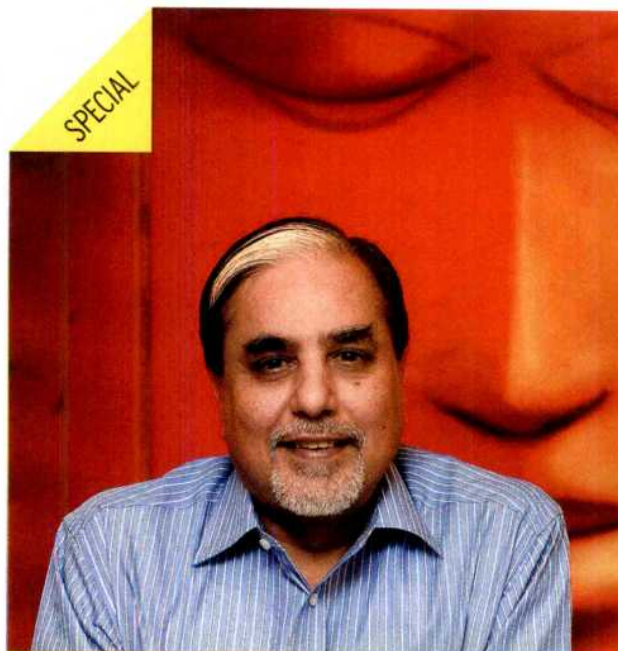
134 | Vishesh Chandiok

National Managing Partner,
Grant Thornton India LLP

134



SPECIAL



Winds of Change at ZEE

What next at ZEE, now that **Subhash Chandra** has divided up his empire between his sons, Punit and Amit?

Plus: Profile of Amit Goenka, the man to watch
businesstoday.in/zee-succession

NEWS



Changing Tastes

How the digital media has taken away some of the TV viewership of IPL 7.

businesstoday.in/ipl7-digital

M-Pesa Rolls Out

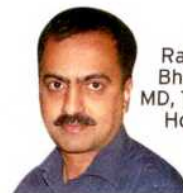
Vodafone launches its mobile commerce service, enabling easy money transfer to distant corners of the country.

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Expanding Its Base

Tree House, the well known Mumbai nursery school chain, is expanding into day-care centres.

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Rajesh Bhatia,
MD, Tree House

Stooping to Conquer

Swarovski has shed its ultra luxury image to become acceptable to a wider range of customers.

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Vote, Mumbai, Vote

From discounts on haircuts to free drinks, Mumbaikars had a range of offers from restaurants, retailers and salons to induce them to vote.

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An IMPACT Feature

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Crash? Not Quite
Wilfried G. Aulbur says vehicle recalls by companies is not necessarily a bad thing.
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The 2020 Leader:
Learning from the Future
Santhosh Babu on the two kinds of problems executives face – 'technical' and 'adaptive'.
businessstoday.in/buddhaintheboardroom



Growth versus Development
The two are not opposed and, indeed, must go together, says Abhay Gupta.
businessstoday.in/gupta-growth



Think Independent
Tina Edwin on the new norms for independent directors in the Companies Act.
businessstoday.in/companiesact-guide



Spain's Veggie Delights
Spaniards love their meat, but vegetarian fears of staying famished are unfounded, discovers Sarika Malhotra.
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Invest in Strategy
Hemant Rustagi on how to choose the best investment options.
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GADGET REVIEWS

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Motorola Moto X

Its biggest highlight is 'touchless' control

HTC Desire 210

Company launches its cheapest device for ₹8,700



INTERVIEW



"India is among the largest investors in US real estate"

Yurop Shreshta, Vice President, South Asia, Aginsky Consulting Group, talks to Sarika Malhotra.
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BLOG



Surround Sound
E. Kumar Sharma wonders how the new government in Andhra Pradesh

will deal with microfinance institutions.

businessstoday.in/kumar



DEEP DIVE

What Does It Take?

Suresh Rajagopal shares what appointment boards look for when they evaluate candidates for the top job in companies
businessstoday.in/deepdive-rajagopalceo



PERSON OF THE FORTNIGHT

Not too long ago, **Ramesh Agrawal** had a bullet in his leg. Gunmen broke into his shop and shot him. That was when Agrawal was in the midst of organising villagers, from a small Internet café, to demand their right to information about mining and industrialisation in Chhattisgarh. Now he has what they call the 'green Nobel', the Goldman Environment Prize.

NOT SO TWEET

Twitter ethics were put to the test as Biocon boss **Kiran Mazumdar Shaw** said on the micro-blogging site: "At a recent Infy board meeting, I was most impressed by Rohan Murty's brilliant tech-loaded presentation, which will enormously benefit Infy."

The naysayers might have once again cried foul over the role of Murty, Executive Assistant to his father, N. R. Narayan Murthy, who returned as Chairman last year. But, the questions this time were about the wisdom of Mazumdar Shaw, an independent director on the Infosys board, in revealing board proceedings.

Proxy advisory firms said Murty's presentation was not an issue; the board can summon anyone to make one.

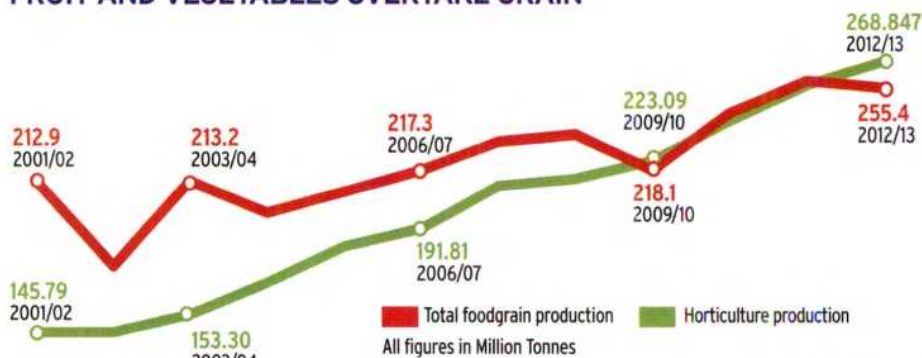
Mazumdar Shaw defended her tweet, saying she only wanted to tell the world how good Murty was and it was not a mistake to bring him into the company. However, she later sent out another tweet: "I apologise for this inadvertent and improper tweet on Rohan Murty – I agree it was incorrect to do so."



THE DAUGHTER RISES AT RELIANCE

This is futuristic. Headlines saying "The son rises at such and such place" are commonplace. Let's prepare for this one. **Isha Ambani**, Mukesh Ambani's 22-year-old daughter, joined consultancy firm McKinsey in the United States. It came as no surprise that many saw it as a stepping stone to a position in the Reliance empire.

FRUIT AND VEGETABLES OVERTAKE GRAIN



Source: National Horticulture Board
Research: Niti Kiran

For the first time, India's horticulture production was more than its agricultural output. A part of it is exported, but it can be safely assumed that Indians are eating more fruit and vegetables than roti and rice. Those who plan for the country's nutritional security will do well to take note.

NUMERAL UNO



That was the voter turnout for Parliament elections in financial capital Mumbai. Not very high, but the highest since 1991. Several Bollywood stars were away in Florida for the International Indian Film Academy Awards.

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News Digest

Economic growth in the US stalled in the first quarter. Gross domestic product grew at a 0.1 per cent annualised rate in the January-March quarter. It had expanded 2.6 per cent in the previous quarter. Consumer spending rose more than forecast, propelled by the biggest gain in services in 14 years.

The RBI's recent restrictions on credit facilities extended by Indian banks to overseas entities of Indian companies are likely to increase the amount of reported bad loans, ratings agency Moody's said.

India replaced Japan as the world's third-largest economy as far back as 2011, in terms of purchasing power parity rankings in dollar terms, says a World Bank report.

India slipped to 83rd spot among 148 economies in terms of leveraging information and communications technologies for growth and well being, according to a World Economic Forum report. China was ranked 62nd and Brazil 69th. In 2013, India was ranked 68th out of 144 countries.

Core sector growth slowed to 2.5 per cent in March, down from seven per cent in the same month last year as the output of fertiliser, crude oil and natural gas declined.

Nokia Corp has decided to move its Indian mobile phone handset plant out of its global deal with Microsoft. Nokia will instead operate the factory as a contract-manufacturing unit for Microsoft. Nokia has yet to agree to conditions set by an Indian court, including payment of a guarantee for potential tax dues in a dispute with Indian authorities.

The HSBC India Purchasing Managers' Index (PMI) for April was at 51.3, unchanged from the previous month. It indicates that manufacturing production continues to remain sluggish with moderate expansion of new businesses and lower output. The PMI is based on data from monthly survey of purchasing executives in over 500 manufacturing companies.

Air India Ltd will join Star Alliance, the biggest global grouping of airlines, in July, allowing passengers to use Star's facilities such as airport lounges and fly on a network of 21,900 daily flights to 1,328 airports in 195 countries.

Globally, travellers are attached to their mobiles, with 91 per cent saying they use their smartphones on holiday. One in three (37 per cent) use their smartphone to find things to do, and just over a quarter (27 per cent) are searching for hotels. Sixty-six per cent of travellers booked their last trip online, according to travel site TripAdvisor.

Reliance Communications has become the first operator to offer 3G national roaming. It has entered into a tripartite agreement with Tata Teleservices and Aircel to provide 3G roaming services to each other's customers using their network across the country. RCom and Aircel have permits for 3G services in 13 out of 22 service areas. Tata Teleservices has permit in nine circles.

Flipkart has launched its Same Day Guarantee Delivery service in 10 cities, including Bangalore, Delhi, Mumbai and Kolkata. Customers can place orders by noon on a business day to have their orders delivered to them by 9 pm on the same day.

Mutual funds (MF) lost about 3.3 million investors, measured in terms of individual accounts or folios, in 2013/14 on account of volatility in the stock market. It was the fifth consecutive year of loss of folios by MF.

The government has disclosed to the Supreme Court the names of 18 individuals alleged to have stashed unaccounted for money with LGT bank in Liechtenstein.

Gold jewellery exports from India, the world's second-biggest consumer of the metal, fell 39.63 per cent to \$7.86 billion in the year to March 2014. India exported \$992.03 million worth of gold jewellery in March, up 6.09 per cent on the year.

European Union (EU), worried about pests, has temporarily banned Alphonso mangoes, and four other vegetables from India from May 1. They represent less than five per cent of the total fresh fruit and vegetables imported into the EU from India.

The US Trade Representative resisted lobbying by businesses and avoided labelling India with the worst offender tag in its annual scorecard on protecting US patents, copyrights and other intellectual property rights. Instead, the US kept India, which is in the midst of elections, on its Priority Watch List along with China and eight other countries.

The International Monetary Fund's board signed off on a \$17 billion two-year aid programme for Ukraine to help the former Soviet Republic's economy recover after months of upheaval as it continues to face uncertainty.

Twitter Inc. reported lacklustre user and usage growth for the second consecutive quarter. The San Francisco-based company said its 255 million monthly users, on average, appeared to check the service less frequently than a year ago. At its peak in December, Twitter enjoyed a \$46 billion market capitalisation on just \$665 million of revenue in 2013, making it one of the world's priciest stocks.

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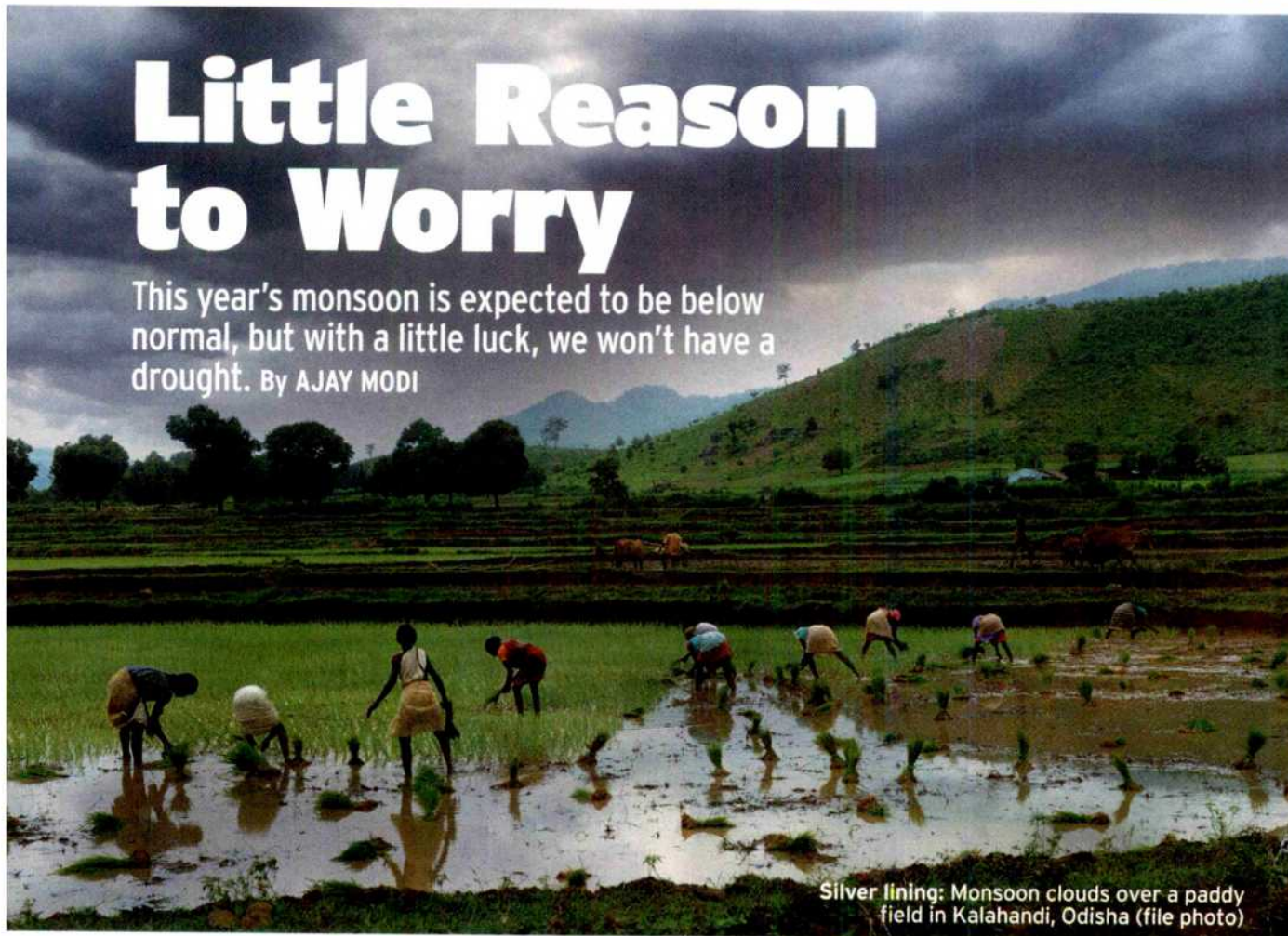
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FOCUS

22 SC Lifts Mining Ban
23 Telecom: Blessing in Disguise
26 NHAI: In the Slow Lane

Little Reason to Worry

This year's monsoon is expected to be below normal, but with a little luck, we won't have a drought. By AJAY MODI



Silver lining: Monsoon clouds over a paddy field in Kalahandi, Odisha (file photo)

SHEKHAR GHOSH

30%
Chance of El Nino
becoming stronger
this year

The southwest monsoon, responsible for the primary rainy season in India, is expected to be below normal this year, along with a slight probability of El Nino-related drought. The monsoon is likely to be 95 per cent of the long-period average, or LPA (average rainfall over the last 50 years), the Indian Meteorological Department (IMD) said in its first forecast in April. Private forecaster Skymet had earlier indicated that monsoon

would be 94 per cent of LPA.

The government agency said there was a 35 per cent probability of the monsoon being normal this year, and 33 per cent probability of it being below normal. There is also a 23 per cent chance of this being a drought year. The forecasts will be updated in June.

IMD classifies rainfall between 90 and 95 per cent of LPA as below normal, and rain below 90 per cent as drought. Rainfall between 96 and 104 per cent of LPA is consid-

ered normal, and between 105 to 110 per cent, above normal. Anything above 110 per cent is considered excess. Last year, the country had an above-normal monsoon at 105.6 per cent of LPA, which helped achieve record grain output of 263 million tonnes.

The monsoon is a vital determinant of food inflation, as it is critical in sowing kharif crops such as paddy, oilseeds, pulses, and onions. Cotton also depends on the monsoon, and therefore the fate of the textile industry. A good kharif sowing and harvest decide the food inflation trend during the second half of a calendar year. However, a lower-than-normal monsoon does not necessarily cause a steep drop in agricultural output. In 2012/13, for example, the monsoon was 92.9 per cent of LPA (lower than this year's forecast) and well below 101.6 per cent in 2011/12, but grain output that year slipped only 0.85 per cent to 257 million tonnes.

IMD Director General Laxman Singh Rathore says there is no need to press the panic button at this stage. He says: "The projected deficiency is not huge. Let us wait till mid-June, when we get a revised forecast with details of distribution patterns. There is no relationship between the season's average rainfall and agricultural productivity. The distribution pattern will be the key".

The southwest monsoon lasts from June to September. Most of the country – except the southern peninsula, Jammu & Kashmir, and Assam – receives more than 75 per cent of its annual rainfall during this period. The monsoon rainfall during this period has a direct bearing on the crop yields across the country. Agriculture and allied sectors such as forestry, logging and fishing, account for 14 per cent of GDP, but employ more than half the workforce.

The IMD has also forecast a 60 per cent probability of El Nino this year. A strong El Nino can cause drought-like conditions in India. El Nino is a phenomenon that lasts about a year on average. During this period, the warming of the sea's surface temperature can affect wind

patterns and trigger floods and droughts worldwide.

According to Skymet, El Nino and the Indian monsoon are inversely related. It says six of the severest droughts in India since 1871 have been El Nino-related, including those of 2002 and 2009. But El Nino doesn't always mean drought in India. For instance, 1997/98 was a strong El Nino year, but there was no drought, and a moderate El Nino in 2002 led to one of the worst droughts.

"El Nino is evolving as of now, but is expected to get arrested," says Jatin Singh, Chief Executive Officer of Skymet. "There is only a 30 per cent chance of this phenomenon getting stronger. If this was amplifying, there would be a stronger chance of drought, like in 2009. This does not seem to be the case at present."

The IMD will revise the monsoon forecast in June and also indicate its likely distribution pattern. However, Skymet projects peninsular India to be at relatively low risk. It expects weakness in most subdivisions in Northwest India (Gujarat, Saurashtra, Kutch, Punjab, Rajasthan and Haryana) and West-Central India (East MP, West MP, Chhattisgarh, Vidarbha, Marathwada, Madhya Maharashtra, Konkan and Goa, North Interior Karnataka, and Telangana) during the whole season. "We are looking at a below-normal monsoon, though chances of a drought are remote."

says Singh. "Regions in northwest and central India will be particularly impacted. Crops such as paddy, soybean, maize, cotton and sugarcane could be affected."

The impact of an errant monsoon is felt across industries such as consumer goods, automobiles, cement and steel. A severe drought can make a difference of two to five per cent to the country's GDP. Despite agriculture's declining contribution to GDP, the monsoon still matters a great deal, because of its indirect impact on the purchasing power of a large section of the population that lives on agriculture. ♦

RAIN GAUGE

 YEAR	 SOUTHWEST MONSOON *	 KHARIF GRAIN OUTPUT	 ANNUAL GRAIN OUTPUT INCLUDING RABI
2006/07	99.6%	110.58	217.28
2007/08	105.7%	120.96	230.78
2008/09	98.3%	118.14	234.47
2009/10	78.2%	103.95	218.10
2010/11	102%	120.85	244.49
2011/12	101.6%	131.27	259.32
2012/13	92.9%	128.07	257.13
2013/14	105.6%	128.36	263.20
2014/15	95%	-	-

* Monsoon as per cent of 50 year average or Long Period Average. 2014/15 figure is a projection. Output is in million tonnes. Source: IMD, Agriculture Ministry

@ajaymodibt



Partial reprieve: An iron ore mine in North Goa

NISHIKANT GAMRE

The Good, the Bad and the Ugly

Iron ore mining ban in Goa goes but difficult times continue for the miners. **By N. MADHAVAN**

The good news for the iron ore mining companies in Goa is that they will soon be in business after the Supreme Court lifted the 18-month-long ban on mining. The bad news is that the move comes at a time when global iron ore demand has softened and international prices have been hovering at \$100 per tonne levels. What is worse is the fact that the ban was effective when global iron ore prices were anywhere between \$160 and \$130 per tonne. "It is a lost opportunity," says Anjani Agarwal, Partner & Leader – Metals and Mining, Ernst & Young India.

The lifting of the mining ban has come with an important rider – an output cap of 20 million tonnes annually. Prior to the ban, Goa was unearthing 45 million tonnes and almost all of it was exported (the type of ore that is found in Goa is of a lower grade and the Indian steel industry does not use it). Now the entire ecosystem has to operate at less than half its capacity. "This is good for the environment but will hurt the players," says Agarwal.

The global demand declined as China slowed down, softening prices. Meanwhile, costs have risen for the miners and on top of that the government has slapped an export duty of 30 per cent.

Two years ago this scenario was unim-

aginable. Iron ore miners were raking in profits as demand from China was insatiable and global prices were skyrocketing. But the reckless expansion of their operations began to hurt the ecology, forcing the Supreme Court to intervene.

On October 5, 2012, the apex court banned mining after a judicial commission headed by Justice M.B. Shah exposed a ₹35,000 crore illegal mining scam involving the industry, politicians and the bureaucrats. India was then the third-largest exporter of iron ore in the world and Goa accounted for half of its exports. In 2012/13, India's total exports slumped to 18 million tonnes, from a high of 117 million tonnes in 2009/10.

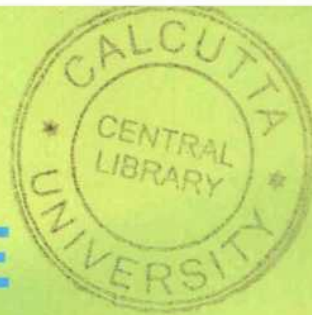
Experts see this move by the Supreme Court as a balancing act keeping in mind the interests of the environment, industry and Goan economy which is heavily dependent on mining. But some say it has come late. "It was long overdue. Supreme Court need not have waited for 18 months to come out with this decision," says V. Raghuraman, an energy analyst. "One of the reasons for the economy slowing down is the poor handling of the problems in the country's mining sector." ♦

EXPERTS SEE THE SUPREME COURT DECISION AS A BALANCING ACT KEEPING IN MIND THE INTERESTS OF THE ENVIRONMENT, INDUSTRY AND GOAN ECONOMY

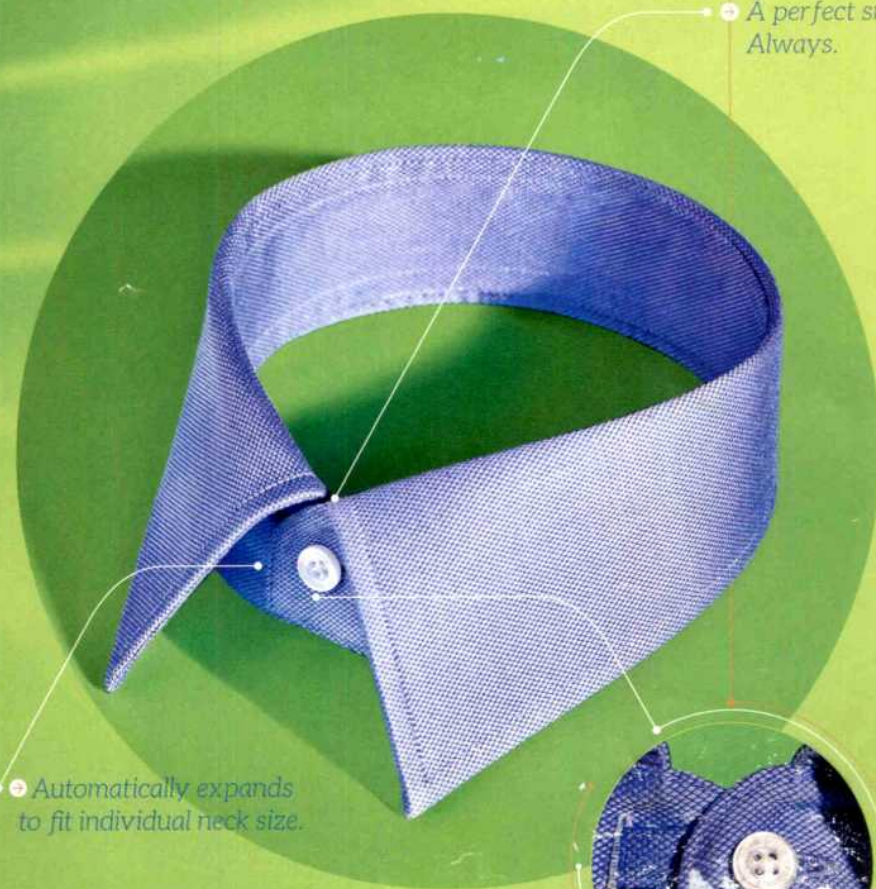
@Madhuta



PARK AVENUE

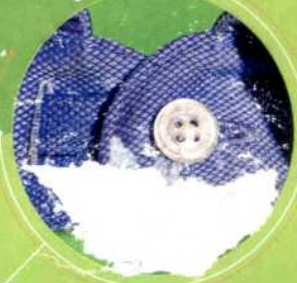


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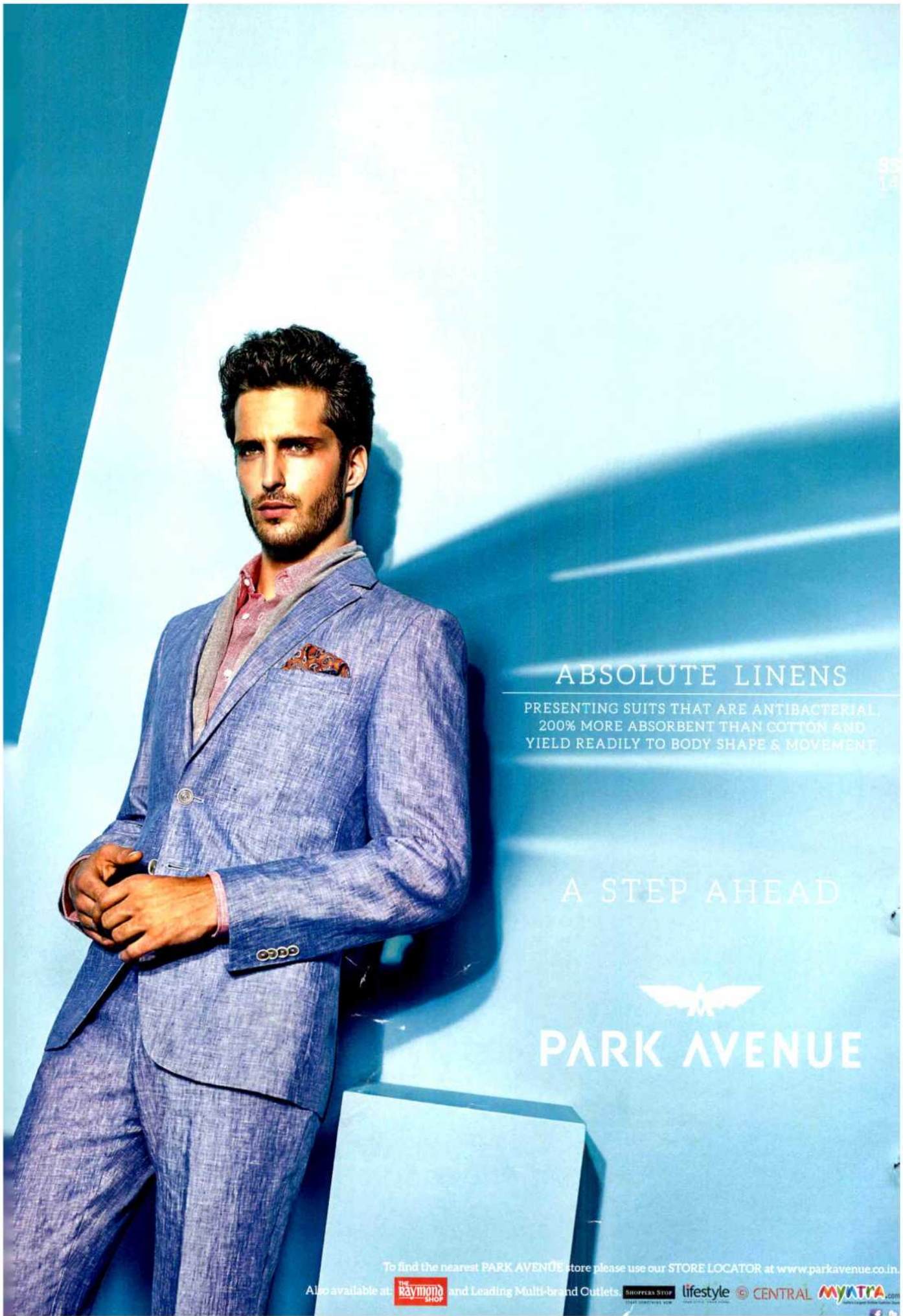
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Blessing in Disguise

The apex court decision to let CAG audit private telecom companies may be a step in the right direction. By **MANU KAUSHIK**

 IF CAG STARTS AUDITING PRIVATE COMPANIES, IT WILL

- ▶ Improve corporate governance and transparency standards of private firms
- Put to rest unfounded suspicions about specific companies if CAG gives a clean chit

 BUT IT WILL ALSO

- ▶ Add to the number of regulators and her agencies private companies have to satisfy
- ▶ Increase costs for private companies

In the third week of April, the Supreme Court took a decision that came as a rude shock to companies working with the government on a revenue sharing basis. The apex court allowed the Comptroller and Auditor General of India (CAG) to audit the account books of private telecom companies (telcos) who share part of their revenues with the government for the use of spectrum, which is public property.

In its judgment, the apex court said that the CAG can examine the statement of accounts of private telcos to ascertain that there is no loss to the exchequer. It is now believed that the decision could have far-reaching impact on businesses which have been given natural resources – such as mines and hydrocarbons – by the government. Also, it is likely to impact companies in the infrastructure sector working with the government on a public-private partnership model.

The judgment has clearly upset Cellular Operators Association of India (COAI), the industry lobby representing GSM operators including Bharti Airtel, Vodafone and Idea. "We already have four regulators closely monitoring our operations. It will add to the cost burden for the telcos. Also, a company will have

to allocate its manpower resource to assist CAG in auditing which would have otherwise been involved in the regular day job," says Rajan S. Mathews, Director General, COAI.

The respite, according to Mathews, is that CAG can only audit the revenue-sharing part. "They cannot audit expenses, internal policy matters, marketing initiatives or decisions related to discounts," he adds.

The decision could actually augur well for the private sector companies, say some experts. The auditing by CAG will improve the corporate governance standards of private firms and make them more transparent, they say. "I think it's a step in the right direction. Globally, the regulatory and corporate governance requirements are of the highest order. I think we are moving in that direction," says L. Madhusudhan Rao, Chairman of Lanco Infratech, a Gurgaon-based power, mining and construction company.

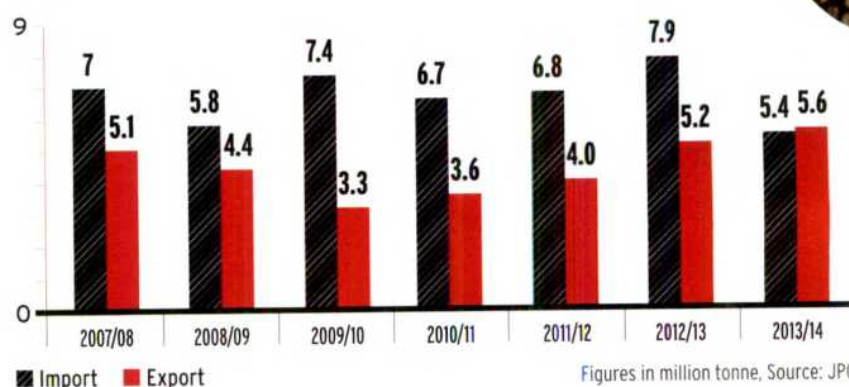
But it is important to know how this decision will be executed, according to Mukesh Butani, Managing Partner at BMR Advisors. "CAG should not use this as a weapon for witch hunting," he says. ♦

@manukaushik

Steeling the Overseas Show

For the first time since 2007/08, steel exports outstripped imports last year.

By AJAY MODI



India used to be a net exporter of steel

INDIA'S STEEL CONSUMPTION GREW MERELY 0.6 PER CENT IN 2013/14, THE LOWEST IN FOUR YEARS, TO 73.93 MILLION TONNE

India, the world's fourth-biggest steel producer, has re-emerged a net exporter of steel after a gap of six years, thanks to a subdued domestic market and a favourable exchange rate.

The country exported 5.6 million tonne of steel, while imports stood at 5.4 million tonne in 2013/14. Steel exports grew 7.7 per cent over the previous year, while imports dipped 32 per cent. Exports in 2013/14 were also the highest in over a decade, imports at a seven year low.

"The weak rupee has been a contributing factor in growth of exports. There were months when export realisation was better than the domestic market," says Ravi Uppal, Managing Director and CEO at Jindal Steel and Power (JSPL).

Most domestic steel companies reported higher exports last fiscal year than before. JSPL exported 550,000 million tonne of steel in the last fiscal, up by about 30 per cent over the previous fiscal. Uppal, however, expressed concern at the possible impact of a stronger rupee on

exports. "If the rupee remains stronger than the level of 62 to the US dollar, it will impact export of all commodities from India. We have already seen a drop in March," he says.

The country was a net exporter of steel between 2002/03 and 2006/07, but imports surpassed exports in 2007/08 and the trend continued till 2012/13 due to strong domestic demand. However, capacity additions in the last two years along with weak domestic demand led to a surplus like situation. India's steel consumption grew merely 0.6 per cent in 2013/14, the lowest in four years, to 73.93 million tonne.

"The growth in exports was mainly driven by robust domestic production coupled with the strengthening of the dollar vis-a-vis rupee. All domestic steel producers, both public and private, tried to export vigorously," says C.S. Verma, Chairman of SAIL, which itself saw a 28 per cent jump in shipments to 471,000 tonne and is eyeing exports of a million tonne this fiscal year. ♦

WHERE INDIA STANDS

It is the world's fourth-largest steel maker

Country	Crude steel production
China	779,040
Japan	110,570
US	86,955
India	81,213
Russia	69,402

Data for 2013, figures in thousand tonnes
Source: World Steel Association
Research by Niti Kiran

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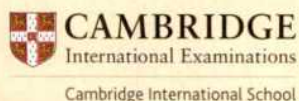
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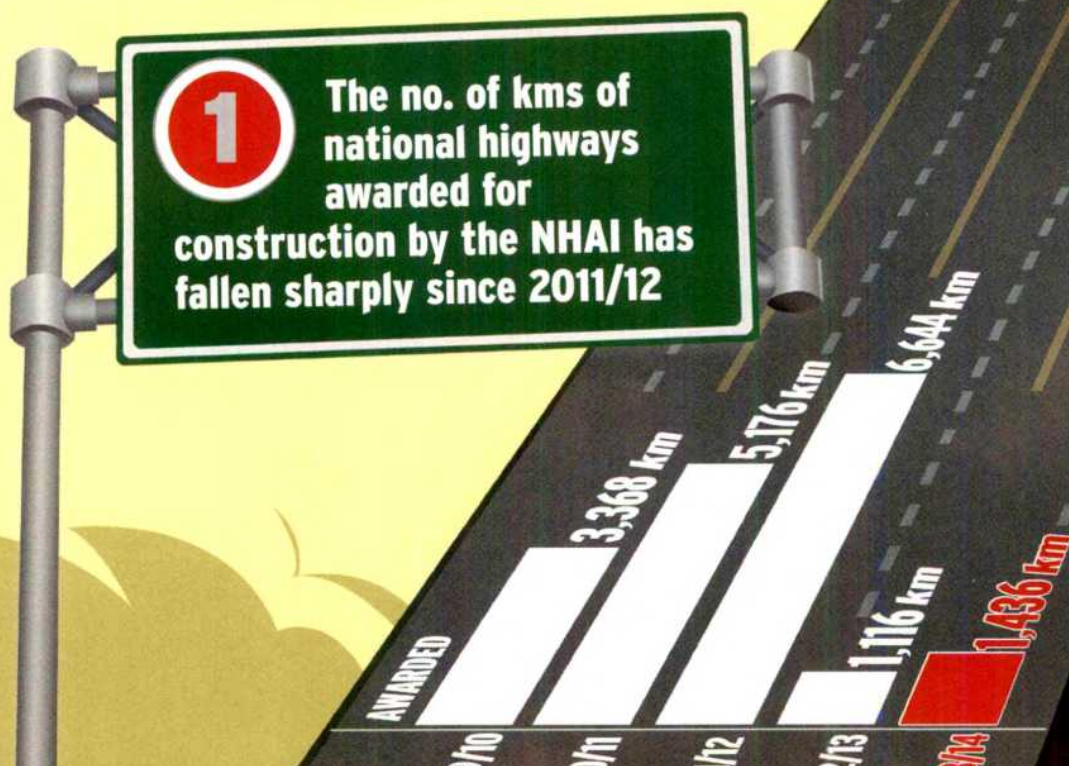
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LIFE IN THE SLOW LANE

Problems of land acquisition, along with the downturn, are slowing down highway construction. The market response to projects suggested by the National Highway Authority of India (NHAI) has been poor, too.

Graphic by **Anand Sinha** Research by **Niti Kiran**

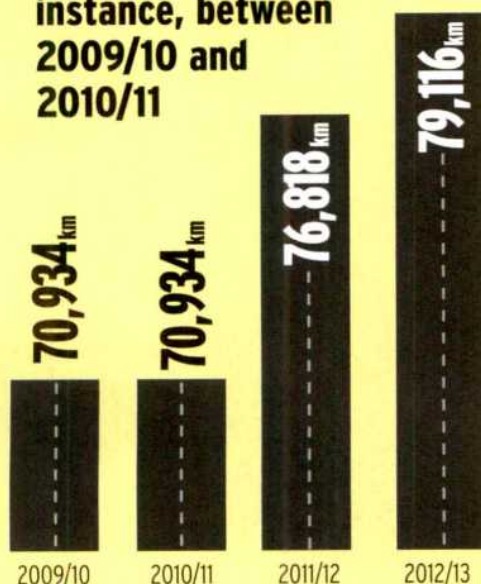




PHOTOGRAPHS BY SHEKHAR GHOSH

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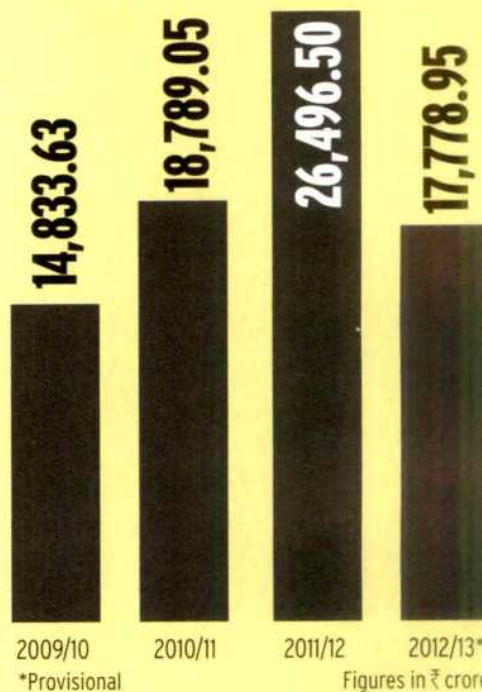
The pace of growth of highways has also fallen. Not a km was added, for instance, between 2009/10 and 2010/11



Source: Planning -II, Ministry of Road Transport & Highways

3

Central expenditure on highways also fell in 2012/13



*Provisional

Figures in ₹ crore

4

The growth of national highways across states has been highly uneven

JHARKHAND		
2010/11	2011/12	2012/13
1,805 _{km}	2,170 _{km}	2,374 _{km}

RAJASTHAN		
2010/11	2011/12	2012/13
5,585 _{km}	7,130 _{km}	7,180 _{km}

MAHARASHTRA		
2010/11	2011/12	2012/13
4,191 _{km}	4,257 _{km}	4,498 _{km}

GUJARAT		
2010/11	2011/12	2012/13
3,245 _{km}	4,032 _{km}	3,828 _{km}

HARYANA		
2010/11	2011/12	2012/13
1,518 _{km}	1,633 _{km}	1,633 _{km}

WEST BENGAL		
2010/11	2011/12	2012/13
2,578 _{km}	2,681 _{km}	2,681 _{km}

Figures show total length of

Be in tune with your body.

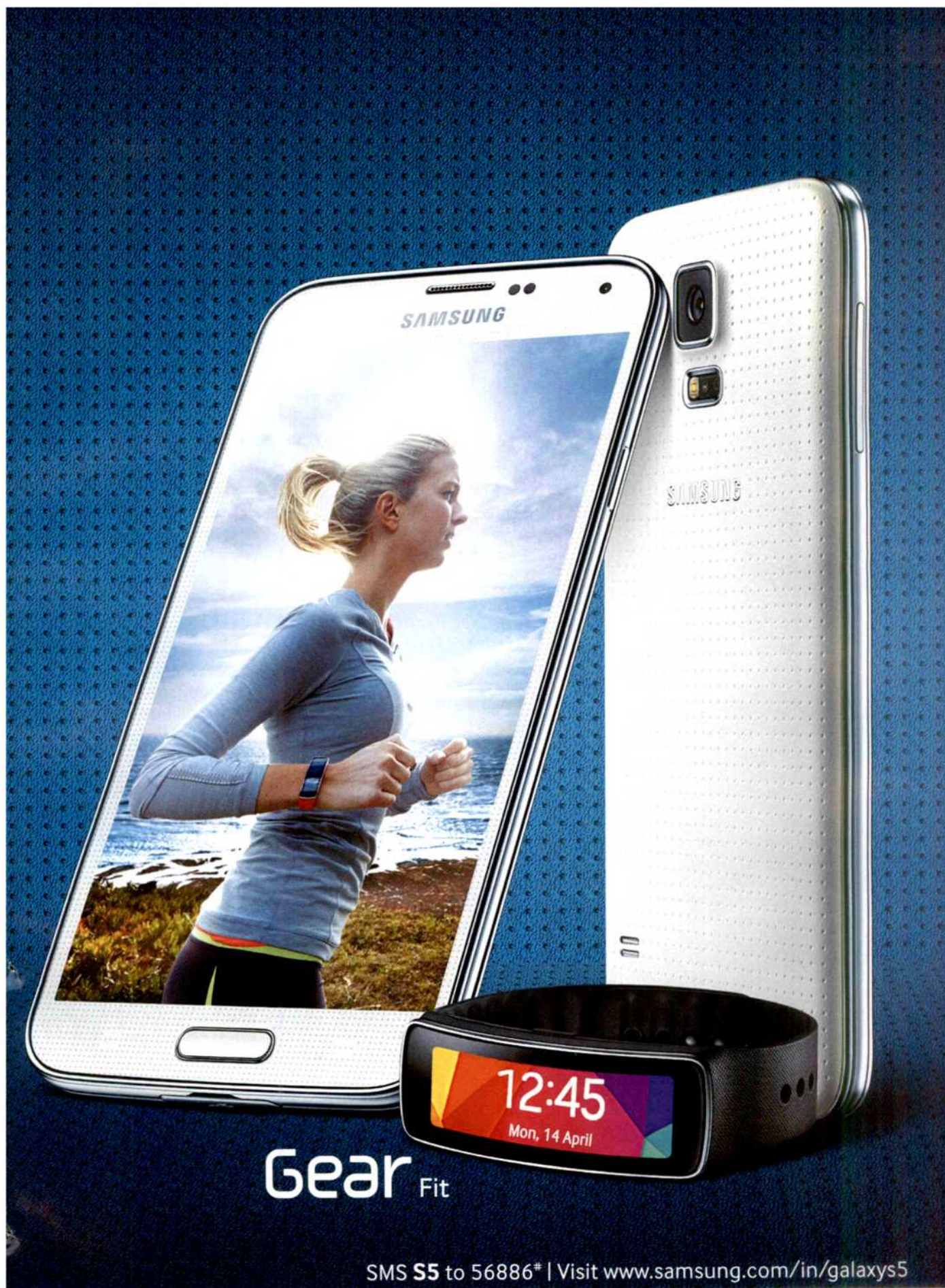
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The advertisement features a Samsung Gear Fit smartwatch and a Samsung S5 smartphone against a dark blue, textured background. The smartphone is tilted, showing a woman running on a beach. The smartwatch is in the foreground, displaying the time 12:45 and the date Mon, 14 April. The Samsung logo is visible on both the phone and the watch.

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"A Stable Government Will Rid India of its Economic Woes"



SOMYA BARPANDA
PGP (2013-15)
IIM Kozhikode

AGREE

"A stable government will help in a smoother rollout of reforms"

Lately many Indians have been losing sleep over an unflattering economic growth rate, gloomy investment climate, a weak rupee, and uncomfortable levels of unemployment, fiscal deficit and food inflation. Against this backdrop, a stable government might not be a panacea to our economic woes. But it will certainly correct the many factors that have been hitherto causing the economy to lose steam.

First, owing to an uncertain future, most companies and investors are warily holding their horses. Once the authority at the Centre is ascertained, this 'wait and watch' phase will end, leading to higher investment flows, a stronger rupee, greater economic activity and in turn better job creation. Second, a stable government will provide a more conducive environment for a relatively smoother rollout of reforms. Third, the government in power was playing it safe and not pushing for difficult reforms aggressively. A stable government would get more room for addressing serious and fundamental economic challenges on the power crisis, infrastructure deficit and need for skill formation. Last, there will be better scope for exercising fiscal prudence as against the incumbent government's pre-poll tendency for fiscal profligacy.

India, however, is notorious for acting only in the face of urgency. Whichever government comes to power next can only ill afford to not learn from past governments, resist complacency and consistently deliver on the front of reforms and economic development.

VISHNU KAANT PITTY
PGP (2013-15)
IIM Ahmedabad

DISAGREE



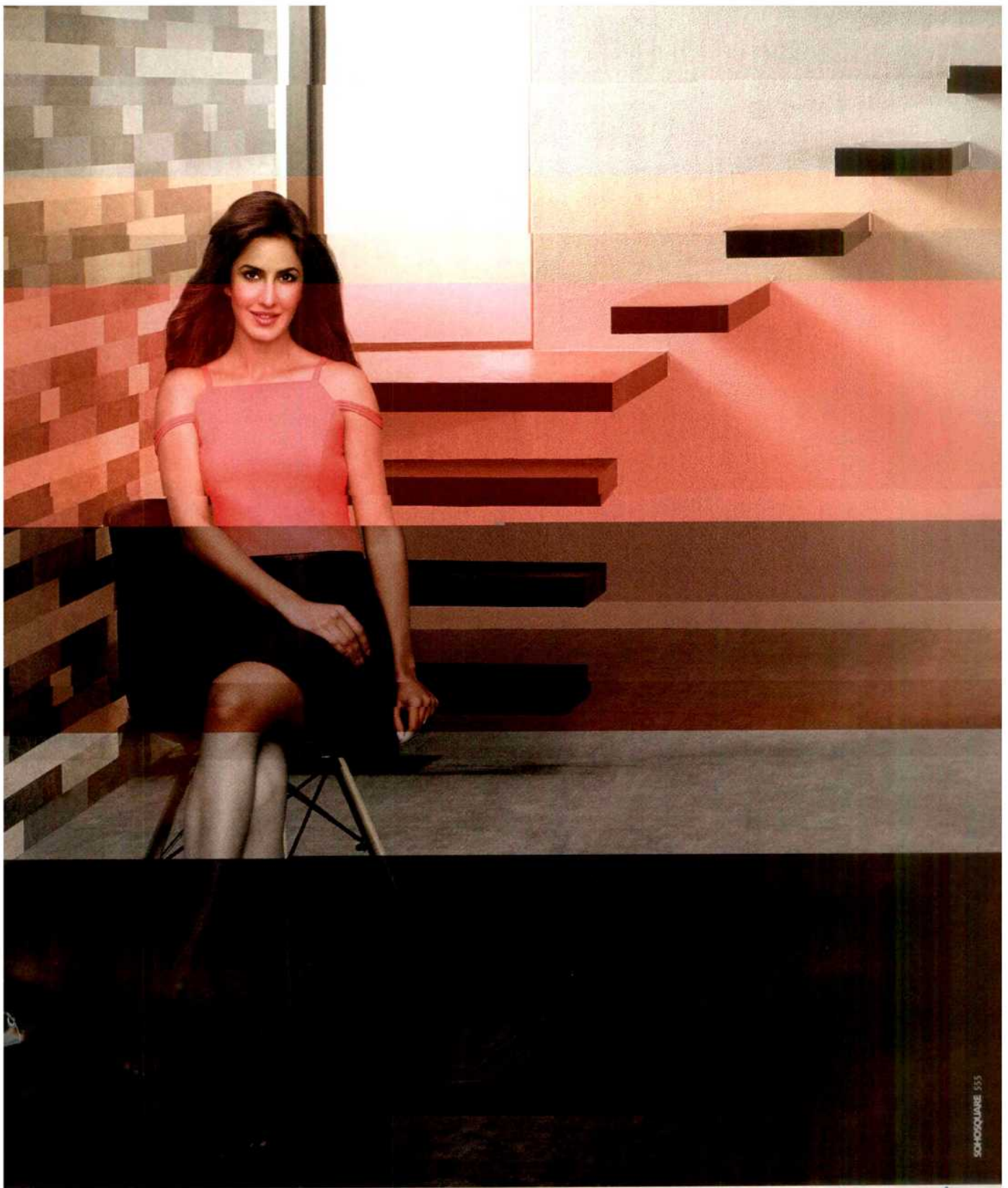
"Good governance not stability is the critical factor"

This demand, and the implications that a truly stable government will have for the country, need closer scrutiny. Let's consider the nature of the economic woes that is plaguing the country. Inadequate infrastructure development, low human development indicators, public distribution leakages, faulty policy implementation – these are the glaring economic challenges ahead for any government that comes in power. The root of all these economic woes: corruption.

At a policy level, to get rid of populist policies, or leakages at various points in policy implementation, it becomes important for the government to be rid of corruption within itself. This is where the argument in favour of stability is weak, for it is the sense of power fostered by a stable government that invariably engenders corruption.

Granted that a stable government will make for a faster policymaking process in the country. However, the solution to India's economic ills doesn't lie in the efficiency of policymaking, but rather in the nature of policies being expedited – in how good the governance of the nation is. The world is rife with cases of complacent or corrupt (but stable) governments taking economic policies for granted. Take, for example, Robert Mugabe, the longest serving president of Zimbabwe – who was sworn in for his seventh term last year. Under Mugabe's administration, Zimbabwe has suffered from much economic turmoil, including sanctions, extreme poverty, and most glaringly, the infamous hyperinflation of 2008/09.

The debate continues online. Management students, do log on to www.businessstoday.in/bschooldebate and record your views as well, to make this an intellectually stimulating endeavour. The most well thought out comment wins a year's subscription to *Business Today*



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TRADE WINDS OF

In 2006, India's Prime Minister Manmohan Singh signed an agreement with US president George W. Bush, which would finally allow Indian mangoes to be sold in the US, the world's largest economy. James Ziemer, then CEO of the Harley-Davidson Motor Co, a close friend of Bush, persuaded him to allow Indian mangoes into America – in exchange for Harley bikes on Indian roads. For India, the deal was bittersweet. India would pay to fly in a US official each time a mango consignment was ready for export, to inspect it for pesticide standards. Meanwhile, India relaxed pollution norms for Harley import.

In hindsight, a former commerce ministry aide, who was part of the negotiations, says: "We should have been tougher. It has gone on like that because we allowed it. India's attitude towards the US has been of subservience." He spoke with *Business Today* on condition of anonymity.

If the Bharatiya Janata Party (BJP) forms the next government, as is widely expected, it could mean an end to side-stepping on contentious issues at the cost of national interest.

Rajiv Kumar, Senior Fellow at the Centre for Policy Research (CPR), a New Delhi-based think-tank, says: "Modi's foreign policy would be far more commercially and economically focused than previous governments. It would be in keeping with what Vajpayee had followed – the approach would be more pragmatic, and away from grand gestures."

Despite growing recognition of the potential of the African market, Manmohan Singh did not venture

WHAT MODI HAS SAID SO FAR

Told China to abandon 'expansionist attitude'

Suggested overhaul of external affairs ministry

Asked states to play more proactive role in building trade ties

Signalled tougher line on border disputes

there until a 2007 visit to Nigeria, India's largest trading partner on the continent. The former commerce ministry aide quoted earlier says: "We should be maintaining a database and developing contacts in African countries.... The Ministry of External Affairs (MEA) needs to prioritise economic engagement. We make eight trips to America and the UK in a year, but it takes us years to plan a visit to an African nation."

N.R. Bhanumurthy, professor at the National Institute of Public Finance and Policy (NIPFP) in Delhi, says: "China realised the potential of Africa 10 years ago. India is still realising it. Reportedly, there are signs in Zambia, asking Africans to beware of Indians and Americans, with a Chinese translation." He says Indian companies operate in Africa

without support from the Indian government.

He notes that Gujaratis are remarkably successful at doing business in Africa. Gujarat's historic and geographic advantage has created a network of traders, he says, and a Modi-led government would use this network to improve broader Indian trade ties with Africa.

Ideally, while the MEA should identify regions of potential economic significance and build relationships, the commerce ministry should facilitate trade with those regions. But, the MEA has tended to ignore economic ties in new markets and focused on high-profile visits to developed economies such as the US and UK, although trade equations between India and the rest of the world have shifted. Trade with Asia now accounts for nearly half of India's exports. Africa and Latin America will be the next game-changers. Yet, India's trade with Africa is low (\$70 billion in 2012), compared to \$105 billion with the European Union (EU).

Indications are that the first country Modi would visit if he became prime minister may be Japan. He has often expressed admiration for the Japanese model of growth and the politics and economics of Shinzo Abe, Japan's nationalist Prime Minister. Columbia University economist Arvind Panagariya, a strong proponent of the Gujarat model and advisor to Modi's core team, says: "Among the three major countries – the US, China and Japan – Modi cannot visit the US first. China should not be the first. So Japan would be the first country."

CHANGE

The trade and strategic moves we can expect if the BJP forms the government with Narendra Modi as PM. By SHWETA PUNJ

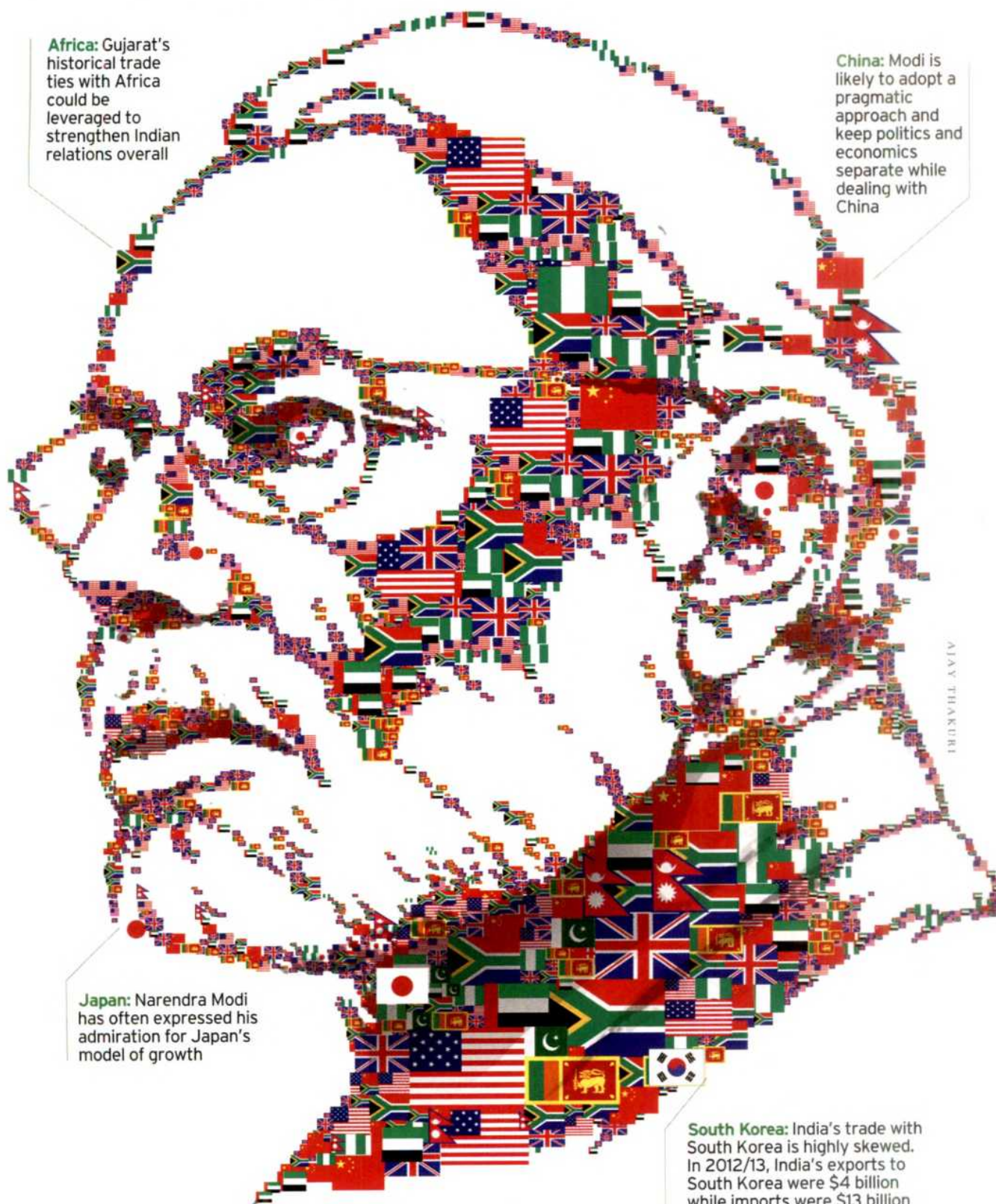
Africa: Gujarat's historical trade ties with Africa could be leveraged to strengthen Indian relations overall

China: Modi is likely to adopt a pragmatic approach and keep politics and economics separate while dealing with China

Japan: Narendra Modi has often expressed his admiration for Japan's model of growth

South Korea: India's trade with South Korea is highly skewed. In 2012/13, India's exports to South Korea were \$4 billion while imports were \$13 billion

ALAY THAKUR



At the India Economic Convention in New Delhi in March, Modi spoke of the need for an overhaul at the MEA. He said: "It seems... our overseas missions' primary task is to file long reports...to gather information about their host country, write political and security analyses about the country's old friends and new. These dispatches are sent to headquarters, where they are read by the relevant division. While such procedures were justified in a previous day and age, in the 21st century, both foreign policy and the foreign office needed to change direction."

Amitabh Mattoo, professor of disarmament studies at Jawaharlal Nehru University (JNU) and Director of the Australia India Institute at the University of Melbourne, says: "The MEA is an outdated institution. It doesn't have the talent or expertise to deal with the rest of the world. The new administration's most important task would be to restructure it and open it up to the entry of experts outside the system."

The disengagement between trade and the MEA grew under the second term of the UPA, which got mired in scams and policy paralysis, and growth took a hit. India's economic halo started to fade, while the MEA continued to focus on increasing India's soft power.

A Modi government is likely to focus more squarely on the national interest. The BJP's manifesto talks of stopping unnamed countries running "roughshod" over Indian interests. At a campaign rally in Arunachal Pradesh, Modi called on China to abandon its "expansionist attitude". Experts say his pragmatism is likely to balance out his tough stance on China. He is not likely to

mix politics and economics.

NIPFP's Bhanumurthy says economics is likely to be the cornerstone of foreign policy if the BJP forms the next government. It is likely to improve trade with Singapore and Japan, among other places. JNU's Mattoo says: "Australia, South Korea, Japan, Singapore – countries that perceive a threat from China – will gravitate towards India."

AMITABH MATTOO

Professor, Jawaharlal Nehru University

"Australia, South Korea, Japan, Singapore – countries that perceive a threat from China – will gravitate towards India"

As for western economies, the EU and the UK have thawed on Modi. UK minister for business innovation and skills Vince Cable said in late 2013 during a visit to India that there was no ban on a visa for Modi. Earlier that year, British MPs invited him to speak in the House of Commons.

With India's economic realities, and the US wary of Modi's human rights record, it is unlikely that strengthening ties with Washington, DC is at the top of the BJP's agenda. The strained relations between the two countries came to the fore after US authorities alleged that Indian diplomat Devyani Khobragade committed visa fraud.

"There is a strong NRI connection with Modi," says Kumar of CPR. "They will exert influence on [the US government] to get things moving towards normalisation of ties."

Remarkably, while India-US ties have been in cold storage, defence deals have thrived. It was during the Khobragade episode that India made defence purchases from Lockheed Martin. Around the same time, Boeing said India was a good country for business. The BJP manifesto talks of opening up the defence sector to private investment – something that may interest US companies.

India's relations with its South Asian neighbours – characterised by

a lack of trust, bureaucratic issues and procedural bottlenecks in India – have let China take what could have been India's position. For instance, Indian investment in Sri Lanka is \$800 million, while China's is \$4 billion. China is funding roads, railways and airports in Sri Lanka. And Nepal has seen an influx of 'made in China' goods. This is despite India's advantage of an Indian Oil monopoly on oil retail in Nepal. Erratic supply and pricing have marred the Nepalis' experience of buying an Indian product.

Pakistani traders complain about tariff and non-tariff constraints, despite "most favoured nation" status, the Urdu translation of which (*sab se pasandeeda desh*) does not go down well with many Pakistanis. A Pakistan commerce ministry aide says: "Words are taking more weight over the objective. China and the US also had serious issues over the terminology of most favoured nation, and they resolved it."

The South Asian Free Trade Area was implemented in 2006 to facilitate trade in the region, but it has remained a non-starter. "India agreed to bring down the number of items on the sensitive list as soon as Pakistan reduces restrictions on Attari-Wagah border," says the Pakistani official. "Pakistan's industry is protesting that Indian industry has subsidies and economies of scale, and if the restrictions are removed, Pakistan's automobile, pharmaceutical, agriculture industry could be adversely impacted. We have finally arrived at a consensus, which we will present to the new government."

He added that if India's new government has a huge mandate, things will be much better. "There was huge enthusiasm and goodwill when Vajpayee visited Lahore in 1999. Pakistan and India together can determine the prices of cotton in the world." ♦

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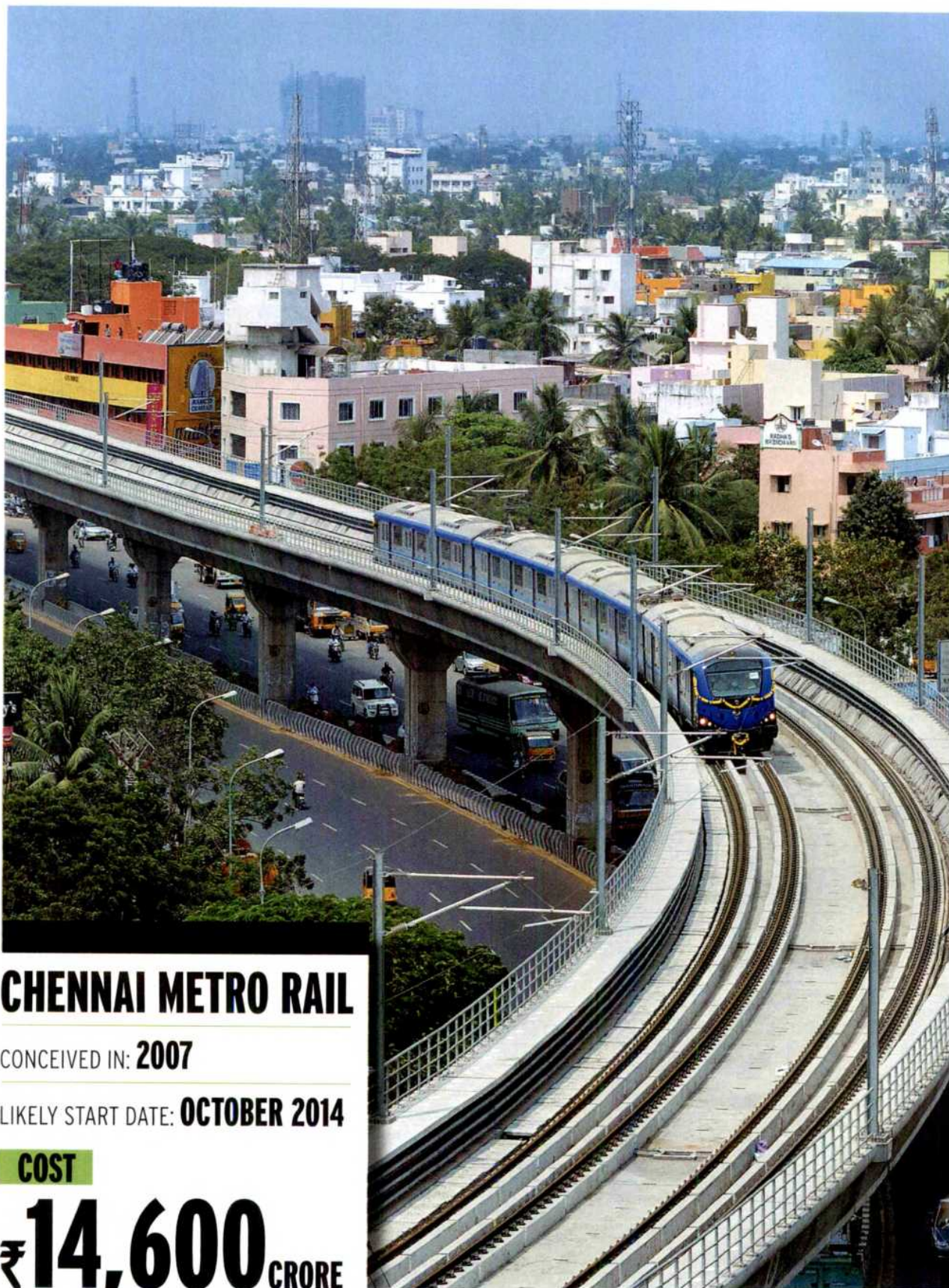


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CHENNAI METRO RAIL

CONCEIVED IN: **2007**

LIKELY START DATE: **OCTOBER 2014**

COST

₹14,600 CRORE



ON THE RIGHT TRACK

Several large infrastructure projects are almost ready to start operations. This bodes well for a new government and, potentially, for the Indian economy.

By ANILESH S. MAHAJAN

The last two years of the outgoing United Progressive Alliance government were marked by a policy paralysis and high interest rates that dragged economic growth down and choked investment. The impact was felt particularly in the key infrastructure sector – latest government data show annual output growth of the infrastructure sector slumped to 2.6 per cent in the year through March from 6.5 per cent in the previous year.

There are, however, a number of projects that are almost ready to start operations and will provide an immediate fillip to sectors like energy and transport. These projects will also provide a new government that will take office after the general elections end in May some breathing space to chalk out a detailed plan to accelerate economic growth. Overall, infrastructure projects worth more than ₹1.5 lakh crore are ready to start operations by the end of 2014, according to the Cabinet Secretariat's estimates. *Business Today* combed through the list of such projects and found some bright spots in an otherwise gloomy economy.

Mumbai and Chennai Metro Rail

Two of the country's biggest cities – Mumbai and Chennai – will get metro rail networks in the coming year. "In both cities, the first phase of the metro is nearing completion. The projects would help ease the traffic scenarios," says Manish Agarwal, who leads PricewaterhouseCoopers India's infrastructure practice.

Mumbai Metro will be the first off the blocks. Mumbai Metro One, a subsidiary of Reliance Infrastructure, has completed the safety audit and trial runs for the 11.4-km-long Ghatkopar-Versova line. The project is running two years behind schedule and its cost has escalated to more than ₹4,000 crore from the initial estimate of ₹2,356 crore. Company executives say they are ready to start commercial operations as soon as they get the green signal. "We are expecting these clearances to come after the elections," says a company executive.

The Chennai Metro is likely to begin operations by October. Chennai Metro Rail Ltd has started trial runs on a 10-km stretch that connects Koyambedu and St. Thomas Mount in the city. The company is confident of starting commercial operations of a second line that will connect the airport in another six months. "By 2016,



A R SUMANTH KUMAR

KOLDAM POWER PROJECT

CONCEIVED IN: **2000**

LIKELY START DATE: **NOVEMBER 2014**

COST

₹6,000 CRORE



the entire phase with all the underground stations will be functional," says a company executive.

Paradip Refinery

Indian Oil Corporation (IOC) will start commissioning tests for the Paradip refinery, in Odisha, from July and expects to make it fully functional from November. The refinery can process 300,000 barrels of crude oil a day and will help meet rising demand for fuel products in the country. It will also help IOC to diversify its supply sources as it can process heavy and dirty crude produced in Latin America.

The previous deadline to commission the refinery in December last year could not be met due to the devastation caused by Cyclone Phailin. "We were ready to test the equipment, but because of the cyclone the employees had to be evacuated," says a senior IOC executive. "Many contract labourers did not return at all. The subsequent rainfall led to water-logging in critical areas of the refinery." To speed up the commissioning of the refinery, IOC then allowed contractors to look for labourers from other parts of the country and brought in new contractors for assignments where progress was not satisfactory.

Koldam Hydropower Plant

Eleven years ago, state-run utility NTPC began work on its first hydroelectric plant as part of its efforts to diversify be-

PARADIP REFINERY

CONCEIVED IN: **1996**

LIKELY START DATE: **NOVEMBER 2014**

COST

₹29,777 CRORE



yond coal- and gas-fired power stations. The 800-megawatt Koldam project on the river Satluj in Himachal Pradesh encountered several environmental and geological hurdles that led to time and cost overruns. "We could not gauge the strength of the hills. The entire project had to be redesigned," says an NTPC executive, who does not want to be named.

The project is now in the last stages of completion. NTPC will start filling the reservoir to the requisite level of 652 meters after the monsoons. The company tried filling the reservoir last December but encountered problems because of leakages in some areas. "We hope that things will go as per our plan and the commissioning of the first unit [of 200 MW] will happen before the onset of winter this year," says Arup Roy Choudhury, Chairman and Managing Director of NTPC. The project will annually generate 3,054 gigawatt-hours of electricity and will provide much-needed peaking capacity to the northern grid. The plant is important also because it will contain the high silt level in the river before waters enter the downstream Bhakra dam.

Burnpur Steel Plant

State-run Steel Authority of India Ltd (SAIL) is giving finishing touches to the modernisation-cum-expansion project at its Burnpur steel plant in West Bengal that was originally set up in 1918. The company is spending more than

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LIKELY START DATE: **SEPTEMBER 2014**

COST

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SHEKHAR GHOSH

₹16,400 crore to replace the obsolete technology used in the plant and expand the capacity five times to 2.5 million tonnes a year. "We are expecting the commissioning to happen in September," says a steel ministry official.

SAIL is also likely to complete expansion work at its Bhilai, Bokaro and Rourkela plants over the next few months. These projects will increase its annual steel-making capacity to 23 million tonnes from 14 million tonnes, says a SAIL executive. The ministry official says the expanded capacity will help reduce India's steel imports.

Strategic Crude-Oil Storage

Come September, India will have its first underground crude-oil storage in the southern port city of Visakhapatnam. The project, started in 2003, is being undertaken by state-run Indian Petroleum Strategic Reserves Ltd (ISPRL) and will help India deal with any disruptions in crude oil supplies. But, it is running behind schedule. "In 2011, when we were at the last stage of drilling, we met with a geological surprise as we hit a brittle rock that slipped," says Rajan Pillai, CEO of ISPRL. "This

delayed the commissioning by roughly two years."

The project comprises a 7.5-km-long tunnel with several caverns to store 1.33 million tonnes, or 9.75 million barrels, of crude oil. "We are trying to balance the level of gases, especially oxygen, in these tunnels before we could start filling crude oil," says Pillai. "If the commissioning tests happen as per plan, we would be ready to receive the first shipment of crude oil from November."

ISPRL is working on two other storage tanks – at Mangalore and Pudur in Karnataka. The total cost of the three units has jumped 65 per cent from the original estimates to \$635 million (about ₹3,800 crore), according to the petroleum ministry. Depending upon oil prices, an investment of \$2 billion to \$4 billion is needed to fill these storages, says Narendra Taneja, national convener of the Bharatiya Janata Party's energy cell. The UPA government has not made any decision on this investment and the new government will have to take a call on this, he adds.

...And the others

Two major projects – a petrochemical complex and an oil pipeline – will start functioning in Gujarat in coming months. ONGC Petroadditions Ltd, a joint venture of Oil & Natural Gas Corporation, GAIL India and Gujarat State Petroleum Corporation, is spending ₹21,396 crore to set up a petrochemical complex at Dahej. Construction work on the 1.1-million-tonne complex is almost complete and commissioning tests will begin in June. "If not all, then some parts of the complex will start working in next two months, and we expect the entire capacity will be up and running by November," says a senior company executive.

Private-sector explorer Cairn India is set to complete a pipeline that will transport crude oil from its Rajasthan fields to Bhogat port in Gujarat. The completion of the last 10-km stretch to Bhogat will put Cairn in a better position to sell its crude. Currently, it sells crude to Reliance Industries, Essar Oil and Indian Oil through a 590-km pipeline from Rajasthan to Gujarat. The completion of the last stretch will help it reach out to other coastal refineries in the country. The pipeline will be completed by October, says a Cairn spokesperson, adding that the cost of the entire pipeline and the port is \$1 billion (about ₹6,000 crore).

While these projects will provide a leg-up to the infrastructure sector in the short term, many more that are set to take off will help revive the economy in long run. Since June last year, a special cell set up in the Cabinet Secretariat by Prime Minister Manmohan Singh has fast-tracked approvals for stalled projects in sectors including roads, power and railways with total investment of ₹3.2 lakh crore. Clearly, the future appears better. "Things are shaping up well on the ground," says Vinayak Chatterjee, Chairman of infrastructure consulting firm Feedback Ventures. "In next six months things might look much brighter." ♦

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enius is one per cent inspiration, 99 per cent perspiration." These words of General Electric co-founder Thomas Alva Edison apply as much to innovation as to any other human activity. Too many companies and even more executives still equate innovation with breakthrough ideas and deploy large amounts of resources in unearthing them. They do

not realise that equally important is execution – converting the idea into a marketplace success – and often falter at this stage. "The real innovation challenge lies beyond the idea. It lies in a long, hard journey – from imagination to impact," says Vijay Govindarajan, innovation guru and Coxie Distinguished Professor at Tuck School of Business.

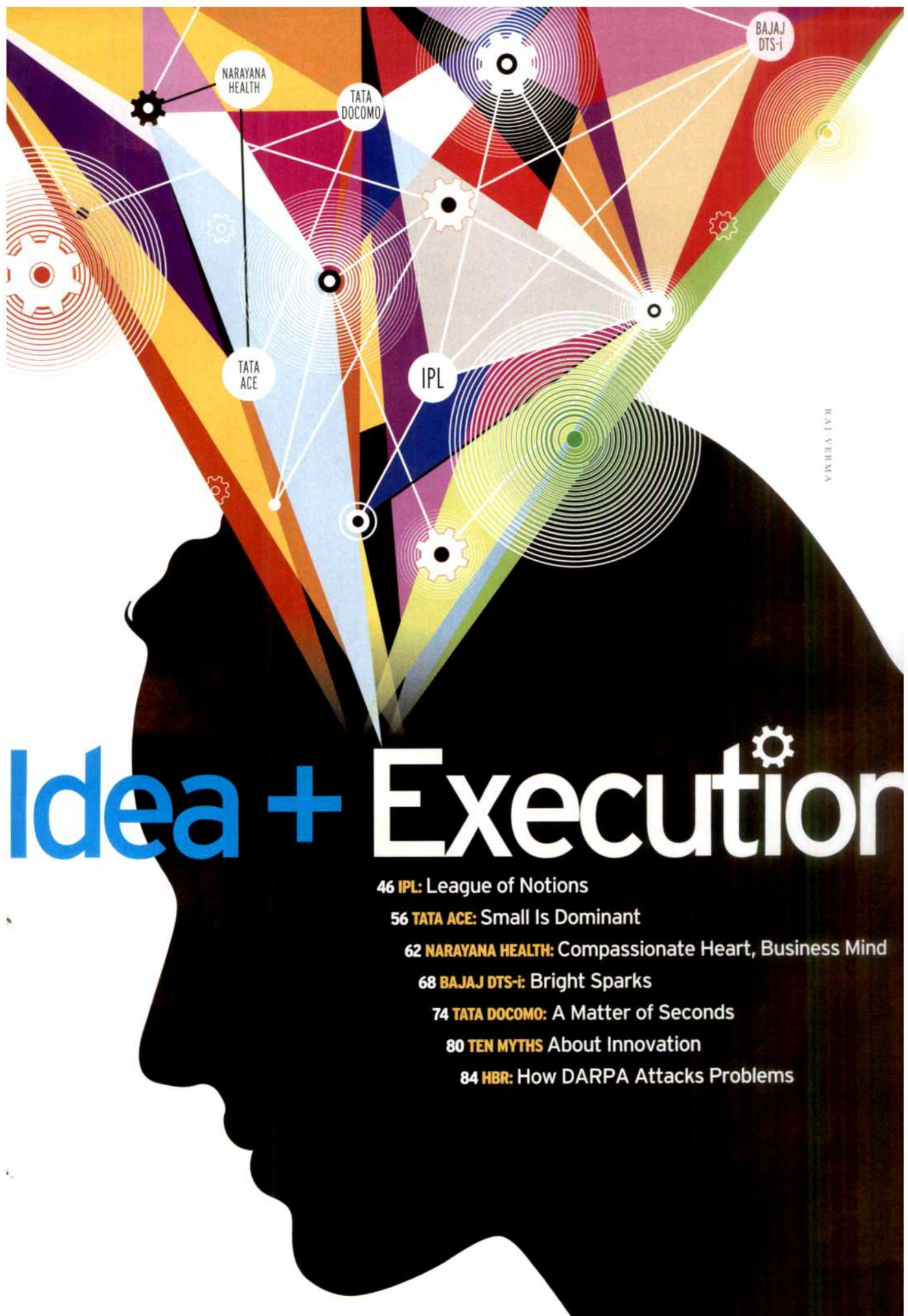
Business Today's Innovation Special this year looks at the execution challenge. We bring you four innovation success stories which underline the importance of getting the execution right – IPL (page 46), Tata Ace (page 56), Narayana Health (page 62) and Bajaj Auto's DTS-i technology (page 68). The fifth example is that of Tata DoCoMo's "one paisa per second" tariff (page 74), which had a mixed impact on the telecom sector. While it was instrumental in increasing

Innovation =

It is diligent execution that transforms an innovative idea into a commercial success

cell-phone penetration, it also caused revenue losses from which the sector is yet to recover. All five instances provide valuable lessons on how to execute. Like any out-of-the-box effort, there are myths that surround innovation and its execution. We highlight and debunk 10 most common (page 86). We round off the package with a seminal *Harvard Business Review* analysis (page 90) of how the Pentagon's Defense Advanced Research Projects Agency – which brought the world the Internet, global positioning satellites, stealth technology and drones – handles innovation.

This year our innovation special extends beyond the magazine and a large body of work is available online at www.businessstoday.in/innovation2014. Page 88 gives you a preview of that content. We'd love to hear from you. Email us at editor.bt@intoday.com or share your thoughts on our Twitter handle, @BT_India with the #BTInnovate hashtag.



RAJ VERMA

Idea + Execution

46 **IPL:** League of Notions

56 **TATA ACE:** Small Is Dominant

62 **NARAYANA HEALTH:** Compassionate Heart, Business Mind

68 **BAJAJ DTS-i:** Bright Sparks

74 **TATA DOCOMO:** A Matter of Seconds

80 **TEN MYTHS** About Innovation

84 **HBR:** How DARPA Attacks Problems

innovation IPL



ALAY THAKURI



League of Notions

Who did it first? We don't know. What we do know is that everyone wants a piece of the IPL, some a little more than the others. By SUVEEN SINHA and AJITA SHASHIDHAR

Virat Kohli's heart rate is racing like a tracer bullet... You can see it on your screen as this one goes right down to the wire... This may go all the way."
Ravi Shastri?
Yes and no.

That's how Shastri, who has a well-known predilection for certain phrases, may have described it on air. But it never happened because players refused to wear heart rate meters around the time Lalit Modi birthed the Indian Premier League (IPL) six years ago.

"We wanted players to wear meters that would show their heart rate during high-pressure situations, like a tight last-over finish. We thought the heartbeat sound, along with the heart rates on big screens, would give spectators a unique experience. But some players expressed their reluctance and we respected that," says Modi in an email interview.

He also wanted to let the camera follow players into the dressing room. But players' reluctance again came in the way.

Still, Modi, who was the force behind the IPL's first three editions, managed to pack enough in the 20-overs-a-side league for it to become one of the biggest business innovations to come out of India.

Business? Isn't it a game we are talking about?

Well, *Fast Company* magazine in 2010 put the IPL at number 22 in its list of the world's biggest innovations for creating "a new economy of cricket". Writer Danielle Sacks wrote: "In baseball, they'd call that a

INNOVATION

A new economy of cricket around a T20 league

EXECUTION LESSONS

It does not matter whether a concept is old or new, what matters is what you can do with it

The first-mover advantage is less than what it is cracked up to be

In television viewership, reach is all important. Bring in the untapped audience

The two things that matter in India are cricket and Bollywood, and there is no stopping an amalgamation of the two

home run."

Sacks lives in Brooklyn, the New York area that has been a hotbed of baseball since the sport's early days in the 1850s. Had she seen the kind of frenzy the IPL has created, she might have been tempted to describe baseball's successes as fours and sixes. After all, the Indian league has already spawned replicas in soccer, tennis, badminton, and now kabaddi. And there are now T20 cricket tournaments in Australia, Bangladesh, Sri Lanka, and Nepal which one day hope to be just like the IPL.

Whodunit?

All right, confession time. Twenty-overs-a-side cricket did not start in India. The format, as the game itself, began in the United Kingdom. The Benson & Hedges Cup, England's domestic one day tournament, 50-overs-a-side, had to be killed in 2003 because its title sponsor was lost to the Tobacco Advertising and Promotion Act. The shorter version, Twenty20, stepped in to fill the void. It ended up doing a lot more.

It ushered in barbecue zones, beer tents, music bands, karaoke, fancy dress, and games for children, and re-introduced the game to spectators who were turning away from it. Twenty20 grew beyond the traditional fan base of the game and embraced families looking for a fun evening out.

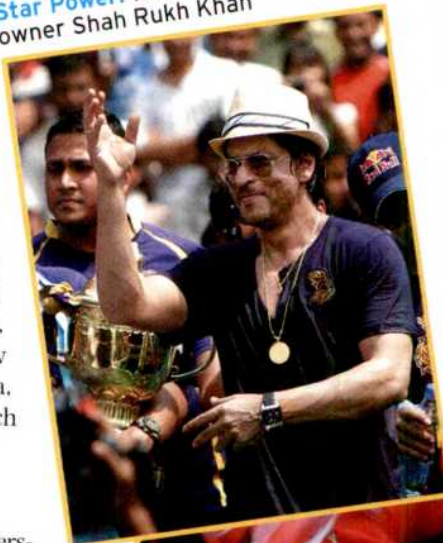
Surprisingly, outside England, it was the stodgy Pakistan that first experimented with the format, followed by the ever-adventurous Australia. At this time, the Board of Control for Cricket in India (BCCI) was a sceptic. "What is Twenty20," Niranjan Shah, its secretary at the time, was quoted as scoffing in 2006. "Why not Ten 10, or One 1?"

Everything changed as India won the first T20 World Cup in 2007 in South Africa. And it did to the shortest format what the previous World Cup win in 1983 had done to the one-day format of 50 overs a side. Quick to soak up the little global sporting glory that comes its way, the country of a billion cricket fans put its weight behind the new format.

The first attempt to monetise the format came from Subhash Chandra, who was also the first to tap satellite television with his Zee bouquet of channels. He started the Indian Cricket League (ICL), with nine teams, each identified with a city. Big names like Kapil Dev and Tony Greig gave it their blessings.

This was Chandra's bid to become India's Kerry Packer. The Australian tycoon, in the 1970s, paid pots of money to the biggest names in world cricket to start his own league and brought the Australian Cricket Board down to its knees. The board was compelled to give broad-

Star Power: Kolkata Knight Riders owner Shah Rukh Khan



Showstopper: Kings XI Punjab's co-owner Preity Zinta

cast rights to Packer's Channel 9. Chandra, too, was smarting from a BCCI snub over broadcast rights.

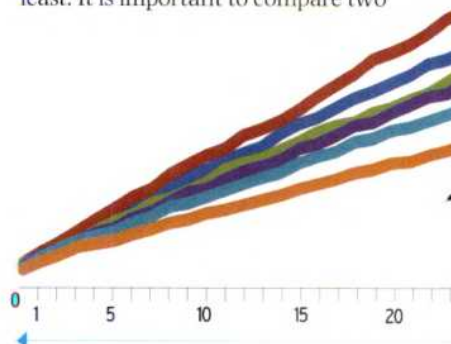
In less than two years, though, Chandra's ICL subverted the theory of first-mover advantage. The generally lackluster BCCI showed unprecedented swiftness in banning all players associated with Chandra's league and deprived it of facilities. The killer blow was delivered by the BCCI's new infant, the Indian Premier League.

Helmed by Lalit Modi, the IPL rode on the untold riches the board had recently struck, the limitless stadia and other facilities, the honour of being the Indian national team, and having powerful people in its ranks.

"Had it not been for the pioneering vision of the ICL, the BCCI would have gone ahead with the 50-over format. It would have been a disaster. So in an ironical way, I just hope the BCCI remains indebted to the ICL for showing it the right direction," says Himanshu Modi, who heads Zee group's finance and strategy teams, and headed the ICL.

The other Modi, Lalit, does not react kindly to suggestions that the ICL showed him the way.

"The ICL was an unrecognised and unauthorised league, which had no sanction either from the BCCI or the International Cricket Council. Thus my very basic objection to the ICL was concerned with its very existence, which was questionable at the least. It is important to compare two





The mastermind: Lalit Modi was instrumental in launching the IPL in 2008, which has since grown into one of the world's biggest sporting events

like entities; you cannot compare two disparate events and draw parallels," says Lalit Modi.

And he says the ICL, even though it came before the IPL, had no real novelty.

ICL vs ICL vs IPL

Way back in 1994, Modi became ESPN's partner and brought it to India. At the same time, he was thinking of a city-based cricket league, and the name he had in mind was – here it gets really curious – the Indian Cricket League.

He had the players signed. The BCCI, when Madhavrao Scindia was

its honorary Chairman, bought into the idea. Then Jagmohan Dalmiya became the board's chief and he was far less enamoured of Modi's ideas.

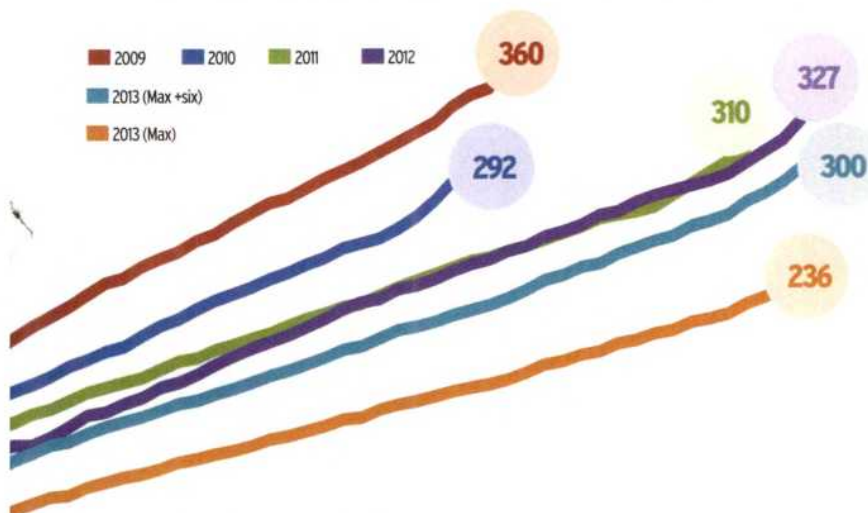
Things changed as I. S. Bindra brought Modi into the Punjab Cricket Association, which paved his way to the post of the BCCI's vice-president. Given Modi's background – he is the son of tobacco tycoon K. K. Modi – the onus of growing the business of cricket fell on him.

He made broadcasters cough up a lot more. Harish Thawani's Nimbus paid ₹2,730 crore in 2006 for four years' rights. This came on the back of team sponsorship going to Sahara for ₹314 crore and kit sponsorship to Nike for ₹197 crore. The total was a 10-fold jump over the revenue figure of the previous four years.

Thus pregnant with money, the BCCI gave birth to the IPL. But, with Modi as the midwife, it couldn't be just another cricket league.

The circus comes to town

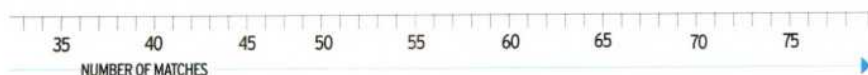
A careful auction of franchisees engendered strong city loyalties among fans. It was surreal to hear the Feroz Shah Kotla ground, home to Delhi Daredevils, erupt in loud cheers at the fall of Sachin Tendulkar's wicket when Mumbai Indians came to play.



EYES WIDE OPEN

Cumulative TV viewership ratings during ad breaks

Source: Allied Media



Such a thing had never happened to Tendulkar in India.

Chandra's ICL was more inclusive, but spread itself a bit thin. One of its teams was Lahore Badshahs, which may have struggled to find a committed fan base in India.

The IPL's players auction, potentially a drab affair interesting only to accountants, became a television event, creating match-like drama with rising dollar figures. And who adorned the buyer tables? Film stars and big businessmen. Every time actresses Preity Zinta and Shilpa Shetty raised their manicured hands, or Mukesh Ambani's wife Nita conferred with her advisors, or the camera focused on actor Shah Rukh Khan, you paused an extra second to watch.

"A lot of people have asked me if the mix of franchisees was contrived. The answer, though, is that our mix of Bollywood celebrities and corporate India was derived by default, thanks to a very open and transparent bidding process. Frankly, I could not have written a better script even if I had tried," says Modi.

Once the first match began on April 18, 2008 in Bangalore, the Indian cricket fan saw a new world. It had music (played by disc jockeys in the stadium), glamour (people who need to wear dark glasses after sundown), and colour (cheerleaders). "The fact that the IPL had an entertainment quotient comforted us as here it was not team India's performance that mattered. It was positioned as a family entertainment platform. That the property had a strong linkage with Bollywood meant we could target newer sets of audiences such as women and, of course, the youth," says Rohit Gupta, President, Multi Screen Media, the company that owns IPL broadcasters Max and Sony Six. "We managed to sell 50 per cent of our inventory even before the tournament started."

Players sat in dugouts just outside the boundary rope, instead of being hidden away in the pavilion. There was live commentary by players and umpires from the field of play. And there were quick interviews with players right after the end of the innings, as sweat dribbled down their temples. The game came closer to the viewer.

With matches coming on television in the evening hours, even your mother began to have an opinion on the game. It helped that the Indian league had the best of global talent on show. If ever evidence was needed



All smiles: Mumbai Indian's co-owner Nita Ambani cheers for her team along with other supporters



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that money made the world go round, here it was.

It was also the first time an Indian cricket event was covered live (or deferred live) globally. What's more, now players could earn a good living from the game even if they did not get into the national team.

The on-field activity kept pace with the off-field ones. Rajasthan Royals, the cheapest franchise, captained by ageing Australian Shane Warne, whose nickname Hollywood is well-earned, went on to win the tournament with a bunch of players who were nowhere near their captain in fame or notoriety.

This was 2008. The final was played on June 1. The Lehman collapse was still three and a half months away. India was dreaming of economic superpower status. Its mid-

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MILLION-DOLLAR OWNERS

How franchisees are valued

RANK 2013	RANK 2012	FRANCHISEE	BRAND VALUE 2013	BRAND VALUE 2012	CHANGE %	BRAND RATING 2013	BRAND RATING 2012
1	2	Chennai Super Kings	45.42	45.28	+0.05	AA	AA
2	4	Kolkata Knight Riders	44.98	39.03	+15.2	AA	A
3	1	Mumbai Indians	44.62	48.21	-7.4	A+	AA
4	3	Royal Challengers Bangalore	37.81	41.15	-8.1	A-	A+
5	5	Delhi Daredevils	34.22	32.19	+6.3	A+	A-
6	-	Sunrisers Hyderabad	31.49	-	-	BB	-
7	8	Kings XI Punjab	30.78	28.66	+7.4	BB	B
8	7	Pune Warriors	29.45	28.88	+2	B	BB
9	9	Rajasthan Royals	27.05	26.93	+0.04	B	B

All figures in \$ million

Source: Brand Finance India 2013

dle class' income was growing fast and aspirations even faster. Naturally, advertisers jumped on to the new vehicle, which showed an unprecedented reach across age, gender, and income profiles. They also loved the little extras the IPL offered, such as the mid-innings timeout.

"The IPL helps us connect with consumers. It gives us a captive audience like no one else does," says Ronita Mitra, Senior Vice-President, Brand Communication, for Vodafone. The company has been a big spender on the league since its first season and its ZooZoos are as much a part of the three month event as the cheerleaders.

Even a couple of spots per match are said to yield high value. "The IPL is a great leveler as it reaches out to people across states, languages and communities. Any advertiser with a national agenda will want to be there," says media buying agency Mindshare's Principal Partner Kiran Konsam.

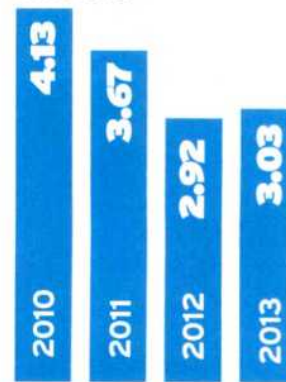
As advertising, reassured by high television viewership, burgeoned, the IPL became the BCCI's cash cow. It may have been inspired by the English Premier League soccer tournament, or the National Basketball Association league in the United States, but it has its own economics. It does not, for instance, depend on stadium ticket sales. Its biggest sources of sustenance are broadcast rights, title sponsorship, money from companies who want to attach their name to every boundary scored, sale of franchisees, and merchandise. The BCCI keeps a part of this money and gives the rest away as prize money and franchisees' share.

After just a year, the IPL grew big enough, and bold enough to go toe-to-toe with the big fella, the Indian government. The home ministry wanted its dates changed for the 2009 edition, the year of that other great Indian circus: Parliament elections. But Modi said no. The government said it would not be able to provide security for the matches.

Most people would have backed down and complied. Modi shifted the

LOSING LUSTRE

Brand value added by the IPL to the BCCI has dropped since 2010



All figures in \$ billion

Source: Brand Finance India

Combined Trademark Value of all the franchisee



All figures in \$ million

IPL – lock, stock and players – to South Africa. The South African government and cricket board embraced the IPL like their own. So did the fans, who turned up in droves to cheer teams from Indian cities even though their own cricket season was over, the wickets were tired, and the threat of rain never far.

The shift to South Africa was an act of defiance, audacity, and execution. It was the IPL's way of declaring its independence. It is sad to see this almighty empire shake at its roots.

A Ticket to India

Modi has a good life. He lives in a

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mansion in one of London's richest pockets. His photographs appear next to expensive cars, one of which bears a personalised number plate, CR13KET. But he cannot come to India. Not right now. And he has been cast out of his beloved IPL. There are accusations of tax evasion and money laundering, which he denies.

With time, politician Sharad Pawar moved away from the BCCI and N. Srinivasan, the head of India Cements, took control over it. Modi was a favourite of the former, and there is no love lost between him and Srinivasan. In 2010, he was ousted as the IPL's Chief Commissioner on charges of corruption. He was later banned by the board.

Ironically, the IPL degenerated into more infamy once Modi was out. So much so the Supreme Court has had to step in. It forced Srinivasan, whose son-in-law is accused of betting and fixing matches, to step aside. Srinivasan would be one among very few people who see no conflict in his being the head of the BCCI and his company India Cements owning IPL team Chennai Super Kings.

"The IPL needs to be carved out of the BCCI and listed on the stock exchange. That needs to be done with the franchises, too. When millions of people own the property, there will automatically be good governance," says Shailendra Singh, Joint Managing Director of advertising and media network Percept Holdings.

But a high valuation on the stock market is no longer a guarantee.



In the dock: N. Srinivasan stepped down as the BCCI chief after a Supreme Court order in a case related to match-fixing and betting in the IPL

"The past few years have seen a steady erosion of the brand value of IPL. The validation by the Supreme Court of the corrupt practices inside the boardroom of the IPL has created a fracture in its brand value," says Unni Krishnan, Managing Director, Brand Finance India, which pegged the IPL brand at \$3.03 billion last year, down from \$4 billion in 2008/09.

If that is harsh, wait till you hear what the Supreme Court said. "His (Srinivasan's) staying on is nauseating for cricket," Justice A. K. Patnaik said on March 25.

That would be music to Modi's ears -- he sees everything wrong with the way Srinivasan runs Indian cricket. What adds to the melody is that after the return of Vasundhara Raje as Rajasthan's Chief Minister, Modi

VIEWERSHIP FATIGUE

Average TV Viewership Rating

Year	%
2008	4.81
2009	4.0
2010	4.5
2011	3.91
2012	3.9
2013	3.8
2014*	3.1

*First week of the tournament

Source: Industry

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is again sniffing around the top post at the state's cricket association, which he once headed.

According to newspaper reports, the Supreme Court has allowed the Rajasthan board to announce its election results, which the BCCI has been opposing. The disclosure is expected on May 6, the day this magazine hits the market. But it is already believed that Modi, who managed to contest from abroad, has won.

Modi therefore may hope to find a way back into India. If he had his way, the RCA's results would be greeted by cheerleaders, loud music, and perhaps a gig by Shah Rukh Khan. And there may be a title sponsor in attendance. ♦

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Featuring Rohit Bati in his signature ensemble of vibrant fluorescent green coloured linen jacket on pure white linen shirt and white linen trousers

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innovation Tata Ace

ANAND KHARWANDIKAR:
He kept a tight leash on all aspects of expenditure

A.K. AGARWAL:
He engineered the body, the cabin and the trims

GIRISH WAGH:
Tata Ace was his baby right from concept to the final vehicle

DINESH DANI: As Chief Engineer, he developed the chassis and integrated the vehicle

Touching Everyone: Girish Wagh says Tata Ace was inspired by then chairman Ratan Tata's intent to address the needs of those at the "bottom of the pyramid"

RACHIT GOSWAMI/www.indiatodayimages.com

Small Is Dominant

Tata Ace has transformed both Tata Motors and the commercial vehicle industry.

By N. MADHAVAN

The turn of the century was particularly harsh for Tata Motors. The recession in the commercial vehicle sector that began in 1998/99 was prolonged and deep. Recovery appeared distant. Tata Motors had close to 60 per cent market share and a large manufacturing capacity. What was worse – the recession cycles in the truck sector were becoming more frequent and extreme. The top management began thinking afresh on ways to deal with the challenge and insulate the company from future downturns.

By the end of 2000, Ravi Kant, who was then heading the commercial vehicles business, had set up four cross-functional teams to hit the streets and understand how market and customer needs were evolving. The teams primarily surveyed four segments – intermediate commercial vehicles, light commercial vehicles, medium commercial vehicles and above, and the sub-four-tonne market. Kant handpicked Girish Wagh, a 29-year-old mechanical engineer, to study the sub-four-tonne market, which was dominated by three-wheelers made

INNOVATION

A small truck with a payload of less than one tonne

EXECUTION LESSONS

Innovation starts and ends with customers

Top leadership's support critical. It helps in adequate resource allocation

An independent team with execution-oriented members helps

Bold decisions need to be taken

Innovation is a collaborative effort. Involving the ecosystem helps

by Bajaj Auto, Mahindra & Mahindra and Piaggio. At the time, no one in the industry had really thought that four-wheeled trucks could fit into that space. However, Wagh and his team soon changed the perception. In early 2001, Wagh met a Bajaj Minidor owner-driver in Coimbatore and learnt that he was yearning for an affordable four-wheeled truck with more stability, safety, comfort, all-weather protection and one that could carry more load. The best option the person could think of was a light commercial vehicle that could carry around four tonnes, but it was well beyond his means at over ₹5 lakh.

During one such meeting with a Tata 407 truck driver in Ahmedabad, Wagh got the idea of launching a small truck. He says the owner complained about how three-wheeler commercial vehicles were killing his business as they were charging less and transporting goods faster. In short, he wanted a truck half the size of a Tata 407, a 2.25 tonner. The feedback from the market clearly pointed towards a rising demand for small trucks. But the top management at Tata Motors was not so convinced and queries were raised on launching a three-wheeler commercial vehicle instead.

Two parallel developments helped Wagh and his team. Tata Motors commissioned a macro projection of the commercial vehicle industry and it threw up interesting findings. The study said the medium commercial vehicle, which was Tata Motors's mainstay, would not be the dominant segment in the future. It said a hub-and-spoke model was emerging in road transportation and the centre of gravity would shift towards heavy and small commercial vehicles. "Tata Motors identified this gap in the market and launched Ace," says Vijay Kakade, Director, Automotive and Transportation Practice, Frost & Sullivan.

Around the same time, then chairman Ratan Tata was pushing the group to identify growth opportunities in the domestic market, especially at the bottom of the pyramid. Tata Ace fitted that objective perfectly. In fact, when Wagh made a presentation in March 2001, Tata was very excited. "What was supposed to be a 10-minute presentation went on for 45 minutes. At the end, he [Tata] said we should do the product," says Wagh. Tata's nod sealed the project. "Innovation is difficult in the beginning. There will be a lot of naysayers. Support from top leadership helps in crossing the first threshold," says Wagh, who is now Senior Vice President, Programme Planning and Project Management at Tata Motors.

But, despite a strong independent team and solid backing from the top management, the project faced many hurdles. It began with the engine. The team set a certain cost, fuel efficiency and emission parameters for the engine, apart from a level of refinement. To the team's consternation, none was available globally off the shelf. "Without an engine the project was a non-starter. It was then that we decided to develop a two-cylinder version of our four-cylinder Indica engine in-house," says Wagh.

It was a bold decision as the market had either a single-cylinder engine or a four-cylinder one. Developing a two-cylinder engine was a challenge. Its initial performance (with respect to noise levels, power, fuel efficiency and emission norms) was better than that of a single-cylinder engine, but much lower than that of a four-cylinder powertrain. The team kept refining the performance and finally by mid-2002



MY FAVOURITE INNOVATION

ADI GODREJ
CHAIRMAN, GODREJ GROUP

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the engine was ready. "This was a critical development as many competitors were forced to drop the idea of a small truck because they did not have a suitable engine and a few were forced to deploy the costlier common-rail-direct-fuel-injection engine," says Wagh. The engine became the USP for Tata Ace. The vehicle's engine costs a third of its competitors, offers optimum performance, including the fuel efficiency of a three-wheeler, while meeting BS II and BS III norms. "Even after seven years of its launch and various competitors, Tata Ace has a 78 per cent market share. It is because of this engine," says Ravi Pisharody, Executive Director,



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professional and
personal life**

ICAI launches Flexi Working Portal for Women Members <http://womenportal.icai.org/>

In this knowledge era, when gender doesn't matter as much as talent and expertise do, more and more women turn into professionals and are proving their mettle by playing an important role in every sphere of business and industry. However, owing to various commitments, they find it hard to strike a balance between professional and personal life.

The Institute of Chartered Accountants of India (ICAI) believes that to tap the enormous potential of women professionals which might go inaccessible otherwise, there is a need to help them find flexible working conditions. For this, the ICAI has launched "**Flexi Working Portal for Women Members**".

This portal will help women CAs find suitable opportunities including Part-Time/Flexi-Hours Jobs, or Jobs with Work-From-Home option. Besides, it will provide important announcements of ICAI, details of events, success stories and articles by women professionals, and feature a section on health tips. In fact, the portal will help women professionals contribute to the growth of the profession of Chartered Accountancy and the economy.



CA. K. Raghu
President, ICAI



CA. Manoj Fadnis
Vice-President, ICAI

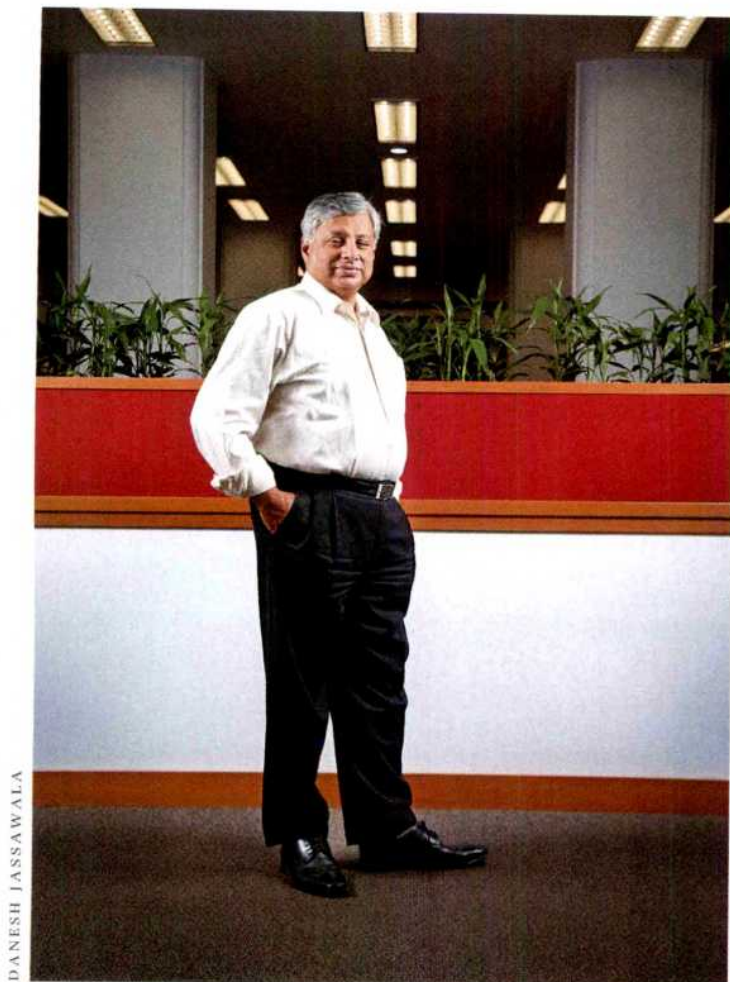


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Empowering Women through Flexi Working



DANESH JASSAWALA

Market Leader: Ravi Pisharody, Executive Director, Tata Motors says Tata Ace has a 78 per cent market share even after seven years of its launch

ment cost was ₹200 crore (including the cost of setting up the 30,000-unit capacity in Pune).

When Ace was launched in May 2005, it swept the market. "Tata Motors got the first mover advantage. Other manufacturers rushed in seeing the success of Ace but are still not able to compete with it," says Kakade of Frost & Sullivan. Today, every fourth truck sold in India is a Tata Ace. It has created an all-new segment, that of the small light commercial vehicle, forcing competitors to follow in its footsteps.

Sales of Ace crossed the one-million mark in November 2012. Its success has helped Tata Motors in many ways. "It offered us tremendous scope for continuing top-line growth," says Pisharody. "Not just that, the company's plan to defend its 60 per cent market share in the industry would not have been possible without Ace." Kakade agrees, adding: "Sales of Tata Ace have been a major factor in the performance of Tata Motors since 2008."

The vehicle's demand is relatively free from the state of the economy and has made Tata Motors less vulnerable to economic cycles. "Even during the present downturn, Tata Ace's growth began slowing more than a year after other segments were affected," says Sandeep Kumar, Head – Sales and Marketing, Small Commercial Vehicles and Pick-ups, Tata Motors. Tata Ace accounts for 40 per cent of Tata Motors sales in volume terms. Ratan Tata named the vehicle Ace as he was impressed by its performance during the trials. It has lived up to its name. ♦

@Madhuta

Commercial Vehicles, Tata Motors.

The team did not hesitate to test new frontiers in product development. Normally about 60 per cent of a new truck's development (in value terms) is outsourced. For Tata Ace this was increased to 80 per cent. "We looked at innovation as a collaborative effort. We tapped into the knowledge of our suppliers. We gave them the design and cost targets and the suppliers innovated and delivered," says Wagh. "For instance, had we engineered the rear axle it would have been heavier and more costly." Similarly, the team chose to try out a semi monocoque structure for Tata Ace where the body is welded to the frame, which gives weight efficiency to the vehicle. This was something new in the Indian truck sector.

The team also – for the first time in Tata Motors's history – adopted a systematic new product introduction process designed by Warwick Manufacturing Group. The entire development process was divided into seven stages and every stage had a gateway (a set of criteria that needs to be met before the project moves to the next stage). "Ace failed to pass the gateway more than once. Once the entire concept of the vehicle had to be reworked majorly. This process helped us to reduce wastage and save time," points out Wagh. The vehicle was ready on time in early 2005 and it met cost targets indexed to inflation. The overall develop-



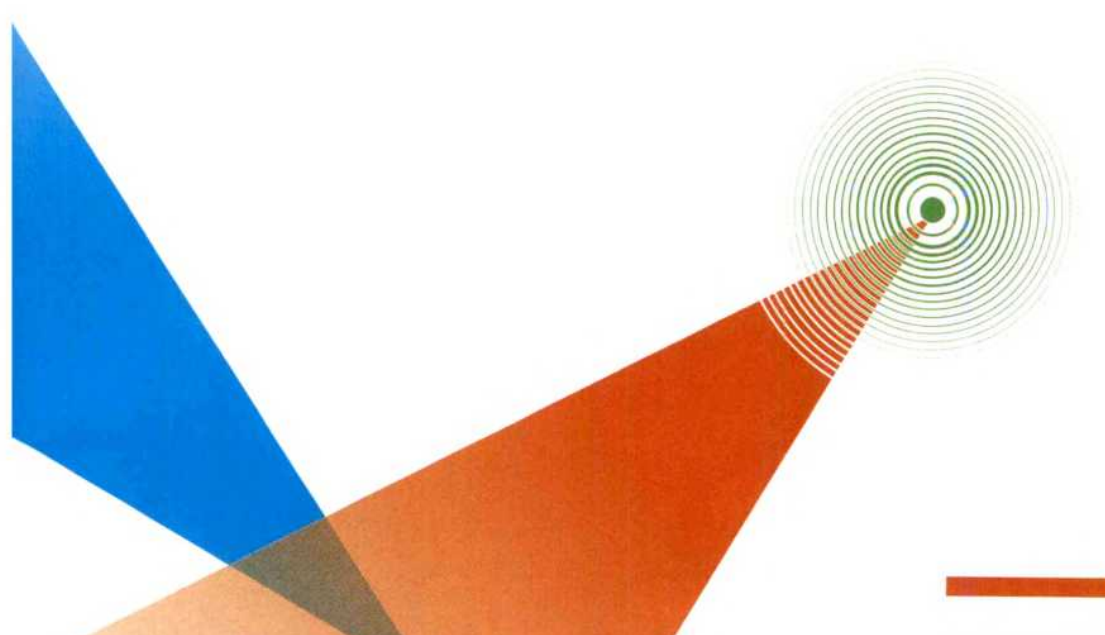
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Narayana Health has successfully married affordability and quality health care. By N. MADHAVAN

Hands that serve are more sacred than lips that pray." The words of Mother Teresa had a profound effect on Dr Devi Shetty, who was the late Nobel laureate's personal cardiac surgeon in the early 1990s. Dr Shetty then worked at the Birla Heart Foundation in Kolkata (Calcutta then). At the time, he would see over 100 heart patients daily. Most needed surgery but never came back for it. This intrigued him. He soon found out that the high cost of cardiac surgery (₹1.50 lakh then) was the reason. He realised that almost 80 per cent of health-care expenses in the country were borne out of pocket. Even worse, 47 per cent of rural and 37 per cent of the urban population either borrowed money or sold assets to pay for medical expenses. Indians are genetically three times more vulnerable to heart attacks compared to Caucasians. Yet only 120,000 heart surgeries were performed annually when the need was for two million. "It was clear costs had to come down," says Dr Shetty.

Quality health care and affordability did not go hand in hand. Those seeking affordability had to be content with government hos-

INNOVATION

Providing
affordable
yet quality
health care

EXECUTION LESSONS

Strong
commitment
to purpose

Getting employees
to buy into that
purpose

Immense tenacity

Accepting
failures and
taking necessary
corrective
measures

Changing with the
times, learning
continuously

PHOTOGRAPHS BY NILOTPAL BARUAH

Compassionate Heart, **Business Mind**



Saving lives: Dr Vivek Dharwar (left) performing a surgery at Narayana Health's hospital in Bangalore

What started as a 280-bed hospital has, in the last 13 years, grown to become a 26-hospital network with 6,900 beds across 16 cities employing 13,000 people and 1,500 doctors

pitals, while quality seekers had to spend their way into private hospitals. Dr Shetty began searching for a model that would marry affordability and quality. "I was certain of one thing though – charity is not scalable while a sound business model is," he says.

In 2001, he founded Narayana Hrudayalaya (later renamed Narayana Health or NH) in Bangalore with a mission to take affordable health care to the people. What started as a 280-bed hospital then has, in the last 13 years grown to become a 26-hospital network with 6,900 beds across 16 cities employing 13,000 people and 1,500 doctors. It has so far performed over 100,000 cardiac surgeries and 250,000 cath lab procedures. The group performs 150 major surgeries (including 44 cardiac surgeries) daily. NH says about 12 per cent of all cardiac surgeries done in the country are performed at its hospitals and 50 per cent of its patients are from the economically-weaker sections.

NH has been able to achieve this by bringing the cost of surgery down. According to an article by Vijay Govindarajan, innovation guru and Coxe Distinguished Professor at Tuck School of Business at Dartmouth College, US, in *Harvard Business Review*, NH's average cost of a bypass surgery is \$1,500 (₹90,000) compared to \$1,44,000 in the US, \$27,000 in Mexico and \$14,800 in Colombia. Interestingly, NH's cost of cardiac surgery is significantly lower than what it was in India 13 years ago.

The lower cost has not come at the expense of quality. NH's mortality rate (1.27 per cent) and infection rate (one per cent) for a coronary artery bypass graft procedure is as good as that of US hospitals. Incidence of bedsores after a cardiac surgery is globally anywhere between eight and 40 per cent. At NH, it has been almost zero in the last four years, points out Dr Shetty.

The focus on both cost and quality has not hurt NH's financials either. While NH's revenues grew by over 200 per cent in the last five years to ₹827.35 crore in 2012/13, its earnings before interest, taxes, depreciation, and amortisation (EBITDA) margin is a healthy 13 per cent. (NH's EBITDA for 2012/13 stood at ₹97.79 crore.) Private equity funds JPMorgan and Pine Bridge have picked up a 24 per cent stake in NH. They clearly believe NH is creating long-term value for investors.

How did Dr Shetty manage to successfully tie affordability and quality together? "The most important reason for NH's execution success is its commitment to purpose. Organisations that pursue bold dreams can inspire their employees to achieve the impossible. NH attracts doctors, nurses and other staff who buy into this vision that they must provide high tech, high quality care to all, irrespective of means," says Govindarajan.

Commitment to purpose is just one reason. Dr Shetty came up with a model that leveraged economies of scale. He built large hospitals and attracted large number of patients through innovative schemes such as micro-insurance and telemedicine. Higher volumes cut per unit cost of surgeries. "Henry Ford taught us this simple principle over 100 years ago. Automobiles went from craft to mass production. Dr Shetty has transformed open heart surgery to mass production using industrial organisation's execution playbook," says Govindarajan. "By the way, when you perform open heart surgery on an assembly line, not only does the cost go down but quality goes up. Performing a medical procedure repeatedly improves a doctor's skill and reduces errors."

Dr Shetty then leveraged the hierarchy of medical talent in optimis-

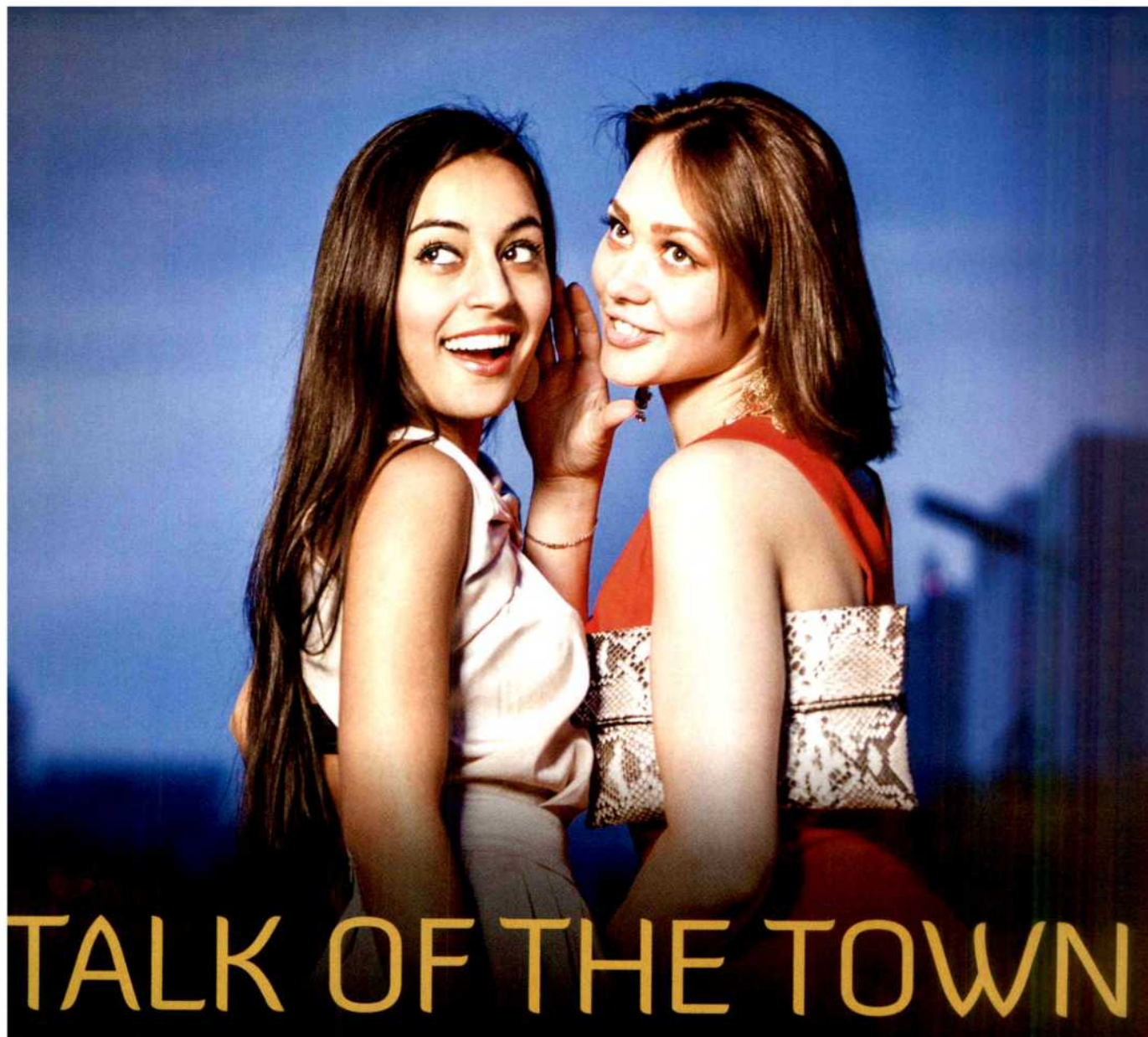


DR DEVI SHETTY
FOUNDER & CHAIRMAN,
NARAYANA HEALTH

"... Charity is not scalable while a sound business model is..."

The wealth of a nation has little to do with quality of health care its citizens can enjoy"

ing surgical procedures. At NH, doctors operate as teams. Each team has a specialist, junior doctors, trainees, nurses and paramedical staff. "A bypass surgery typically takes about five hours. The critical part, which is the actual grafting, takes only an hour. The specialist does that while harvesting of the veins/arteries, opening and closing of the chest, suturing and other procedures are done by junior doctors. The preparation of the patient is handled by nurses and paramedical staff," says Dr Lloyd Nazareth, President and Group Chief Operating Officer at NH. This process leaves the specialist free to perform more surgeries. At NH's Bangalore facility, a surgeon, on average, performs four surgeries a day, six days a week, taking his weekly tally to 24. NH says this is far higher than the number performed in any



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Careful monitoring: Dr Dinesh Raju (right) of Narayana Health preparing a patient for surgery in Bangalore

hospital globally, and dramatically reduces cost.

Also, frugality is the watchword at NH. It does not buy all its equipment. It leases some on a pay per use basis. This keeps capital costs low. Great emphasis is given to maintaining equipment and extending its life. The buildings are designed to keep costs low, too. NH's Mysore Hospital was designed and built at a cost of ₹18 lakh per bed, when the thumb rule cost of a similar hospital is ₹50 lakh to ₹1 crore a bed.

At times, no doubt, the frugal approach did not work. The concept of zero inventory, for instance, was one such. NH did not store consumables and got suppliers to deliver them just in time. There were problems and the measure was reversed, and an in-house store set up. "An important element of innovation is to accept failures and take corrective measures," says Dr A. Raghuvanshi, Vice Chairman and Group CEO, NH. The hospital has set up a central buying unit (CBU) and standardised purchase of consumables and devices. Close to 80 per cent of all purchases are through the CBU. This has cut inventory costs by 15 to 40 per cent and ensured quality.

NH also adopted technology to aid information flow. Here too the frugal mindset came into play. It deployed its enterprise resource planning (ERP) on the cloud rather than setting up data centres. This not only cut initial costs but was easily scalable. The IT system helps NH in many ways. An SMS is sent at noon daily to senior doctors and administrators informing them of the previous day's revenue, expenses and EBITDA details. This enables the management to decide quickly when requests for free or subsidised surgery come. "This is our way to not turn away such requests and at the same time keep our noses above water," says Dr Shetty. "Also, looking at the P&L (profit and loss) account at the end of the month is like reading a post mortem report."

NH also mines data to raise quality levels. Its business intelligence model throws up real time data on 30 different parameters that the

management may want to track for improving efficiency. Those related to clinical outcomes are then discussed at the weekly Mortality Morbidity Meeting held every Thursday where all major clinical procedures are discussed among doctors and best practices shared. "Through business intelligence, we are trying to map the performance of each doctor in terms of clinical outcome and financial data such as consumable used during surgery, time patient has spent in ICU and duration of stay in the hospital," says Dr Raghuvanshi.

NH has also been open to experimenting. When it set up a 104-bed hospital at Cayman Islands in the Caribbean, it chose to use the cold water available from the sea to replace the energy intensive refrigeration system. Energy savings, as a result, were as high as 90 per cent. This is significant considering that power cost in the islands was three times that of the US. NH's decision to set up oxygen plant there rather than source them will soon be implemented in its other hospitals as the plant pays back in just six months.

There are challenges, of course. Cash flow is always a problem as over 50 per cent of the outstanding is from the government. "We never have money," says Viren Shetty, son of Dr Shetty and Vice President (Strategy and Planning) at NH. This has forced the hospital to shift to an asset light model for expansion. "We prefer not to invest in land or building but just in equipment," he adds.

NH, meanwhile, continues to grow and Dr Shetty's target is to reach 30,000 beds. He is confident that India will soon become the first country in the world to disassociate health care from affluence. "The wealth of a nation has little to do with quality of health care its citizens can enjoy," he says. Not many will disagree. ♦

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Yes, they can: Abraham Joseph, who heads R&D at Bajaj Auto, and Managing Director Rajiv Bajaj developed the world's first two-wheeler engines with twin spark technology



Bright Sparks

How two mechanical engineers did magic with **spark plugs**.

By SUVEEN SINHA

🐦 Nobody told Joe and Rajiv it was impossible. So they went ahead and did it.

That would be the tweet to tell the story of how Bajaj Auto became the world's first company to make two-wheeler engines with two spark plugs in the combustion chamber. At 75 characters, it is about half the longest tweet. And yet, that is all there is to the story.

Well, almost all.

"DTS-i (digital twin spark ignition) is just the hump of the camel; the real thing is the rest of the camel. It is not about just one innovation," says

Vikas Sehgal, Managing Director and Global Head of automotive for financial advisory firm Rothschild.

The camel was conceived in the 1990s, by two mechanical engineers who did not believe in what at the time was the shiny new vista called MBA. One of them, Abraham Joseph – Joe to all – was largely self-taught. The other, Rajiv Bajaj, was the son of the CEO who charted out a path for Bajaj Auto that the CEO may not have chosen.

The anti-MBAs

Joe joined the company in 1989, recruited on campus at the National Institute of Technology, Bhopal. He was eager to put his training to use. So an MBA was not really his thing. Instead, he read and read: books.

INNOVATION

Two spark plugs in combustion chamber

EXECUTION LESSONS

No one is in business to teach anyone else anything; a partner comes to you because he does not understand the market and policy, you do

You have to look after yourself, and the best way to do that is to be self-reliant in technology

It is not enough to have a successful product, you must make your product special, put some magic in it

Let your people think, but in a controlled manner. What you need is to think and apply yourself, results will come

research papers, case studies – anything relevant to manufacturing, engines, platforms, vehicles, and factories. He ran into a kindred spirit in Rajiv, the first engineer in the promoter family who broke the tradition of all scions going abroad for an MBA.

In the early 1990s, Rajiv had started to grow roots in the company and give it a direction (motorcycles) and attitude (self reliance in technology) very different from what they had been for decades (scooters; technology does not matter in India). Together, Joe and Rajiv created a research and development wing in 1995.

That was the time when Indian two-wheeler makers were still basking in the first flush of foreign love. Large, multinational companies with deep pockets would share equity and profits with their Indian partners merely in exchange for knowledge of the local terrain: market and customer, and government and regulations. In cases, the Indian partner also provided money, but that was not its *raison d'être*.

Bajaj, at this time, was an also-ran in the motorcycle market, with no identity. Hero Honda, with its 100cc, four-stroke, fuel-efficient motorcycles was the runaway leader. Yamaha's motorcycles, made with Escorts, were known for their performance.

Bajaj tried to do both and failed at both. It had a tie-up with Japan's Kawasaki, but only technical. The two were more like helpful acquaintances. The Japanese company mostly provided technical drawings, which Bajaj had to put to use at its factories through its own processes.

In contrast, Honda was very much in bed with Hero as well as Kinetic, Suzuki with TVS, Piaggio with LML, and Yamaha with Escorts.

"Let's do the opposite of what Hero does," Rajiv told Joe.

That was reckless. They were investing in an engine platform when they could have simply benefited from Kawasaki's. And to what avail? They built the Pulsar, which those who were supposed to know better found too big, with an overgrown fuel tank. But when you say reckless to ambitious men in their twenties who ride motorbikes (M900 Ducati for Rajiv, Yamaha RX100 for Abraham), they laugh it off.

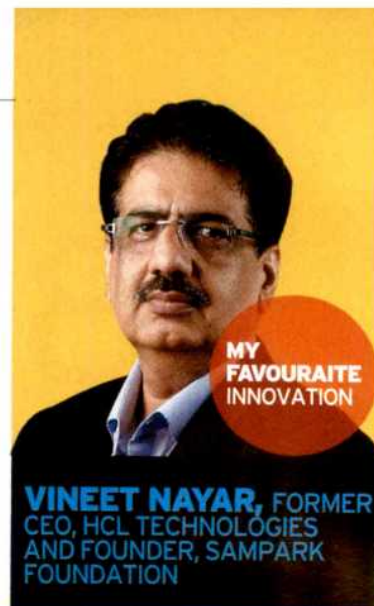
Rajiv, now 48, and Joe, a year younger, are still laughing. And those who doubted them back then turn their faces away just, like the Pulsar's headlight turned to passing girls in its television commercial, as a gravelly voice said: "Definitely male."

Bajaj's EBITDA – short for earnings before interest, tax, depreciation, and amortisation – is a much-talked-about figure, as it is nearly double the industry average. That is all thanks to its success in creating the performance segment – where it refuses to get into a price war and enjoys high margins – and in becoming India's largest exporter of motorcycles by a long yard.

"Success takes time. Bajaj had the vision and audacity to invest in things that were ahead of their time, staying ahead of the market in R&D as well as exports. What's more, Bajaj did it on its own. That it succeeded shows in its market positioning and high profitability," says Sehgal of Rothschild.

Pulsar proved the sceptics wrong from the start. But, as if to rub it in further, Joe and Rajiv remade it in 2003, just two years after launch. As Rajiv once explained, the Pulsar, though successful, still needed a bit of magic in it. The rabbit out of the hat was an extra spark plug.

Simple, you say? Two-wheeler companies would shake their heads at that in exasperation. If they are particularly incensed, they might



MY FAVOURITE INNOVATION

VINEET NAYAR, FORMER CEO, HCL TECHNOLOGIES AND FOUNDER, SAMPARK FOUNDATION

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make you light a match in a room full of highly-combustible gas.

Playing with fire

That is what the combustion chamber of an engine is: packed with air-fuel mixture. The spark plug does the job of a match. But one spark plug (one matchstick) takes time to burn the entire mixture. And the slower the mixture burns, the less work it does in moving the piston. There is more loss of heat to the walls of the chamber. The trick, therefore, is to burn it quickly to create more pressure to push down the piston. That can be done by lighting another match on the other side.

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Expert view: V. Sumantran, who has a doctorate in aerospace engineering, says Bajaj would have done a lot of optimisation work to use the twin spark technology in two-wheelers

But there is a reason why no one did it before Bajaj. Not in two-wheelers anyway.

"In the 1980s, when I was a young engineer, Alfa Romeo had an engine that featured and was branded Twinspark. The concept itself is not unique; it is not a discovery. But we must give credit to Bajaj for taking it forward and putting it in a two-wheeler. There would be a lot of optimisation work needed to get it to work correctly in a small engine. It is not a trivial thing like making a hole and putting a spark plug in it," says V. Sumantran, who has a doctorate in aerospace engineering and has served as Executive Director of Tata Motors and Vice-Chairman of Ashok Leyland.

But the Romeo had a 2,000cc engine, and its sole intent was to generate more power. Bajaj's hunt was different. The Pulsar's engine is 150cc and it needs more power as well as better fuel economy.

Joe describes the motorcycle's combustion chamber as an *ultra katori* (inverted bowl). In DTS-i, one plug is embedded on one side, another on the other. And there must be space for the piston to move freely, with the least friction. So the second plug needs to come through the chain cavity.

The first plug gives the master spark. The second, the slave spark, follows it after a delay. There is a coil to control each spark plug, the two must not burn simultaneously. If the second charge is too quick, there may be a detonation. In fact, for better power and fuel efficiency, they must burn variably in relation to each other depending on the temperature outside, the speed of the vehicle, and the load on it. And at no point should the engine overdo anything. There ought to be balance among the various things going on.

This balance was achieved through a new algorithm Bajaj developed, using its own software. "When you talk about pushing limits, you can at times do it," says Joe.

Giving him a helping hand is his R&D team of 1,200 engineers, who are very good at calculations and analysis. They study fatigue resistance

of components and their performance ability and predict the output of an engine using codes. All the data is stored in a bank for current and future use. "It is an iterative process, built over 20 years," says Joe.

Time well spent. DTS-i gives 18 per cent more fuel economy and 12 per cent more power. At a time when all the other motorcycles were 100cc and 7.5 BHP, even the pre-DTS-i Pulsar was 150cc, 12 BHP. Now it gives 15 BHP. Bajaj's 100cc model, Discover, beats out 10.2 horses. The Pulsar 200 NS, a 200cc model, yields 23.5 BHP and 53 to 54 km to a litre. Other companies have 250 cc models that give no more than 25 BHP and 45 km to a litre.

Just as the proof the pudding is in the eating, the proof of an innovation is in imitation, patents be damned. The DTS-i has been embraced not only by domestic manufacturers like TVS, for which Bajaj took it to court, and Enfield, but also manufacturers abroad.

"Every mother thinks of her son as charming. What matters is whether the girl next door shares her view. In Bajaj's case, she does. The biggest sign of DTS-i's success is that it is being adopted rampantly by two-wheeler makers in Hong Kong, China, and Taiwan. For the first time, a truly Indian technology is making waves abroad. And that is because it enables high performance at low cost, just what most two-wheeler markets need," says Sehgal, who specialised in automotive product platforms as part of his mechanical engineering at the Massachusetts Institute of Technology.

Bajaj, for its part, has put two spark plugs in all its engines. All its vehicles, including the CNG- and LPG-driven three-wheelers, have two spark plugs.

All except the new-generation Pulsar. That has three spark plugs. But that's another story. ♦

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Tata DoCoMo's **one-paisa-per-second tariff plan** changed the Indian telecom industry, for better and for worse. By SUNNY SEN

On a cold winter morning in December 2008, Gurinder Singh Sandhu huddled into a conference room with three colleagues at Tata Teleservices Ltd's (TTL) New Delhi office. Sandhu, marketing head at TTL, and his colleagues were meeting a few days after Japan's NTT DoCoMo had agreed to invest \$2.7 billion for a 26 per cent stake in the Tata Group's telecom arm. Over many cups of tea and coffee, the quartet waded through thick files of surveys and market reports on mobile-phone users' behaviour and requirements. They had to prepare a marketing plan to launch a new mobile-phone service, subsequently called Tata DoCoMo. The plan had to be unique so that Tata DoCoMo stood out from the half-dozen other companies that had

INNOVATION

Charging phone calls on a per-second basis

EXECUTION LESSONS

Understand consumer preferences and position the offerings accordingly

Find out and narrow down on the consumer segment and target audience

Keep innovating on product offerings to stay relevant in the market

Keep an eye on marketing and branding to communicate with consumers

Focus on long-term benefits and not get bogged down by short-term risks

A Matter of Seconds

Listening carefully: Gurinder Singh Sandhu, Chief Marketing Officer, Tata Teleservices



"We wanted to make a disruptive intervention in the market. There was nothing that sounded as disruptive [as the per-second plan]"

launched or were planning to roll out telecom services. What Sandhu decided in that meeting not only helped Tata DoCoMo outsmart its rivals but also transformed the entire telecom industry.

When Tata DoCoMo launched its operations on June 24, 2009 in Chennai, its unique selling proposition was the one-paisa-per-second billing plan for telephone calls. Anil Sardana, who was then managing director at TTL, made the first phone call under the new tariff system that day to then telecom minister Andimuthu Raja. Ratan Tata, Tata Group's chairman at the time, said at the launch that the per-second tariff plan "will create a paradigm shift" for phone users. And indeed, it did.

Until Tata DoCoMo introduced the per-second plan, the lowest time frame to calculate phone tariffs was one minute. This meant that users paid for the full minute even if they spoke for only five seconds. While this was a profitable proposition for operators, users were clearly getting the short end of the stick. "The belief was that the per-minute plan was dishonesty. One-paisa-per-second came from that belief," says Sandhu. The new tariff plan changed the equation overnight. "We wanted to make a disruptive intervention in the market," he says. "There was nothing that sounded as disruptive [as the per-second plan]."

Sandhu studied various markets and similar tariff schemes before launching the per-second plan. One such scheme was by Emirates Integrated Telecommunications Co., which operated under the Du brand in the Middle East. Another plan he studied was launched years before by TTL that offered a pulse rate of 15 seconds to users of its Tata Indicom service, which operated on the code-division multiple access technology platform. While Du's billing plan was a hit among users, TTL had not achieved much success due to lack of adequate marketing support.

Sandhu says he had two options when he was finalising the marketing plan for Tata DoCoMo, which offers telecom services under the global system for mobile (GSM) technology. He could either try to attract new users or instead target existing subscribers of other telecom companies. The second option seemed better. Why? The market research reports Sandhu had read suggested that only a third of mobile users were loyal to their operators. This made it easier to lure them away with a better tariff plan, which is what Tata DoCoMo did.

The company launched TV and print advertisements with catchy taglines such as 'Second is the new minute'. The ambition, says Sandhu, was to make Tata DoCoMo a "lighthouse brand" that consumers and other operators would follow. That's exactly what happened. Within five months of the launch Tata DoCoMo attracted 10 million customers. Three-fourths of them came from other operators. Soon, all operators including market leaders Bharti Airtel, Vodafone and Idea Cellular launched per-second plans and a major tariff war erupted in the telecom industry that had far-reaching effects.

As more companies rolled out similar tariff plans, attracting users at the bottom of the pyramid, mobile penetration in the country surged from 29 per cent to 43 per cent within a year. The Indian telecom industry began adding about 15 million subscribers every month, the fastest pace in the world. From about 500 million subscribers in 2009, the market expanded to nearly 800 million users by 2014. For perspective, the European Union was adding about a million users a month, the US around three million and China almost eight million users a month.

"It was a disruptive pricing innovation in a crowded market," says Srinii Gopalan, Director of consumer business at Bharti, who was work-



MY FAVOURITE INNOVATION

SHIKHA SHARMA
MD & CEO, AXIS BANK

One prominent innovation in the banking industry in 2013/14 has been the eKYC-based model to open accounts. This simplified the process of authenticating people's identity, making it seamless and paperless

ing with Vodafone in the UK when Tata DoCoMo launched the per-second tariff. But not everyone agrees. Sashi Shankar, Chief Marketing Officer at Idea Cellular, dismisses Tata DoCoMo's pioneering move. Shankar says per-second tariff would have been introduced eventually because all telecom operators were aggressively expanding their networks and moving beyond large cities into smaller towns and rural areas.

Tata DoCoMo did not stop at per-second plans for voice calls. It also launched the Diet SMS pack, where rates for text messages would be charged based on the number of characters. In 2010, it launched the first pay-per-site to surf the Internet. The success of per-second plans also



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Smart strategy: Print ads of the per-second tariff plan

prompted operators to launch recharge coupons of as low as ₹10. Earlier, recharge coupons could be bought for at least ₹100. This was unaffordable in small towns and villages as well as for poorer people in large cities. Subsequently, electronic recharge made things simpler. "When that happened it gave a lot of flexibility to operators to offer a whole bouquet of recharge coupons, as retailers would not have to physically store paper coupons," says Idea's Shankar.

The per-second tariff plan also had negative consequences. It pulled down operators' realisation per minute by 10 to 12 per cent. Average revenue per user fell initially. Operators thought that even with the falling realisation, the usage per subscriber would rise, but even that did not happen. Most operators now have between 40 and 60 per cent of their subscribers using per-second tariff plans. This has led to shrinking margins. According to calculations by the Telecom Regulatory Authority of India, an operator makes 20 to 25 per cent more margin if it does not offer per-second tariff. Sandhu also says that if Tata DoCoMo stops offering per-second tariff plans, its margins will go up by at least 20 per cent.

Falling margins and rising spend on network expansion after expensive spectrum auctions in 2010 started hitting the operators and dragged the industry into a financial mess that it has yet to recover from. All this means is that the ₹2,50,000-crore telecom industry today is buried under a debt burden of ₹2,80,000 crore.

As margins hit rock bottom, telecom operators looked for ways to manage costs better. Bharti, Vodafone and Idea jointly set up Indus Towers to share infrastructure such as telecom towers. Typically, tower sharing cuts cost by up to 25 per cent. Most companies also started operating their networks at or above full capacity. They outsourced certain services and reduced spending on adding customers by relying on mom-and-pop retail outlets to do the job. "We became much smarter in managing our costs," says Bharti's Gopalan.

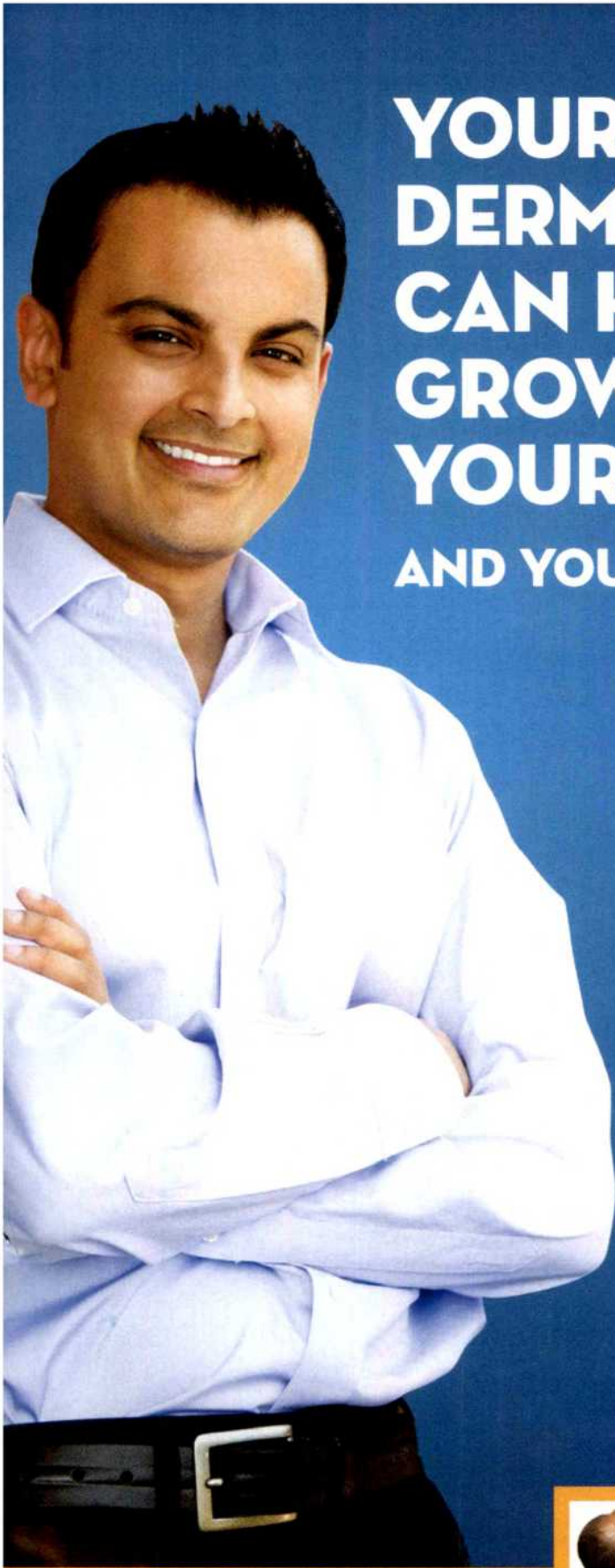
Idea's Shankar says operators began customising services for users and launched other innovative tariff plans to increase revenue. Bharti,

for instance, launched the one-rupee store where users could watch a video for one rupee and Tata DoCoMo launched a service where users can pay one rupee to access social networking site Facebook and messaging service WhatsApp for a day.

Gopalan isn't sure, however, if the per-second plan was the best thing that happened to the industry. "It did erode profitability and I am not sure if the consumer benefited, because you need to make economic returns to continue to invest," he says. Even TTL did not benefit much in the long run. The company makes heavy losses and has failed to become a serious challenger to market leaders Bharti and Vodafone – TTL is ranked seventh among a dozen operators based on market share data from the Telecom Regulatory Authority of India. And on April 25, NTT DoCoMo said it will exit TTL for not meeting performance targets.

Sandhu, however, believes Tata DoCoMo has shown the light to the telecom industry in many ways with its innovative pricing models. Like a lighthouse on a sea shore. ♦

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Myth VS Reality

Mistaken notions about innovation and its execution abound. Here are 10 of the most common.

Illustrations by Ajay Thakuri



Source: The other side of innovation - Solving the execution challenge by Vijay Govindarajan and Chris Trimble, HBR Press.





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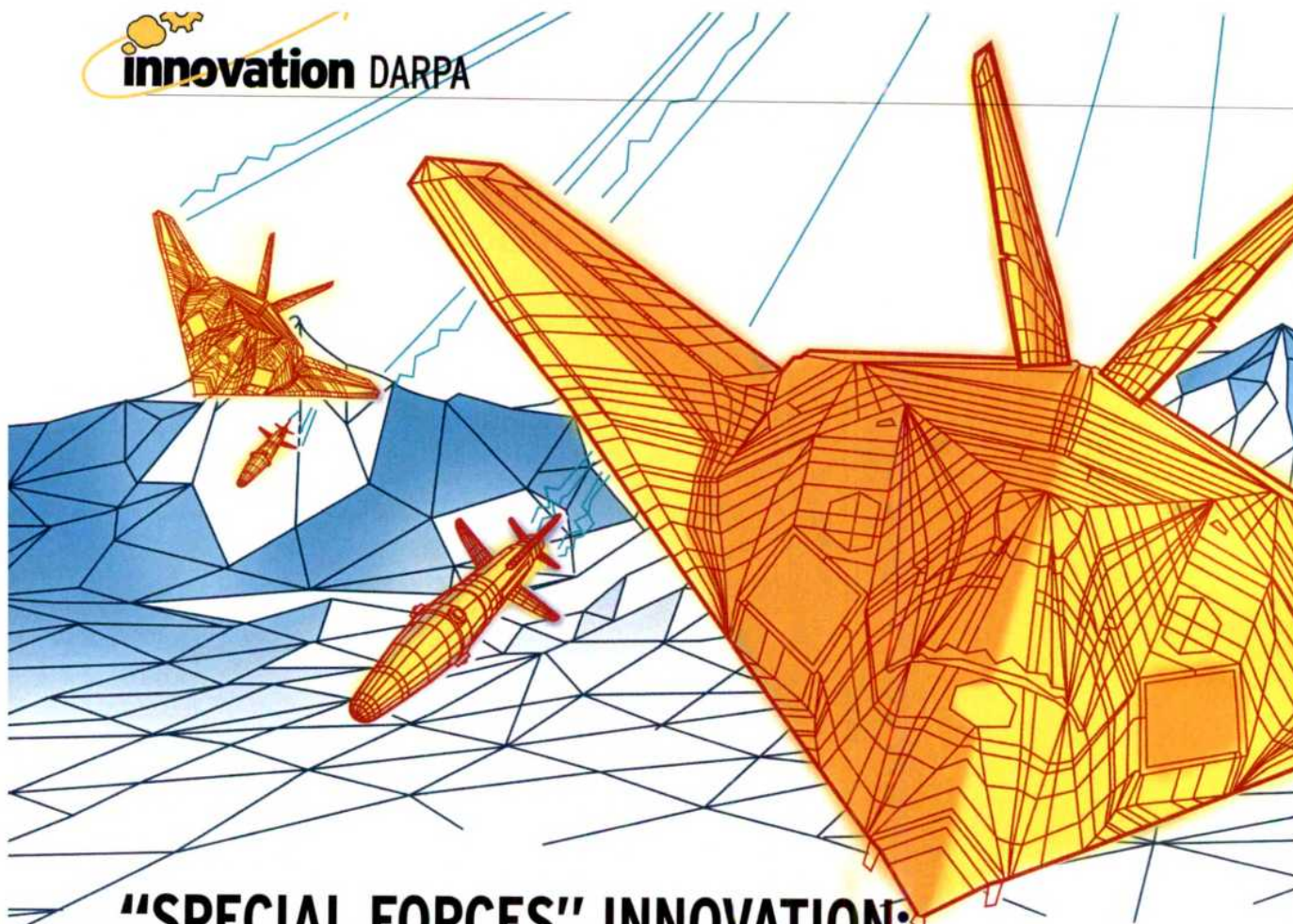


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"SPECIAL FORCES" INNOVATION: HOW DARPA **ATTACKS**

By REGINA E. DUGAN and KAIGHAM J. GABRIEL

Over the past 50 years, the Pentagon's Defense Advanced Research Projects Agency (DARPA) has produced an unparalleled number of breakthroughs. Arguably, it has the longest-standing, most consistent track record of radical invention in history. Its innovations include the Internet; RISC computing; global positioning satellites; stealth technology; unmanned aerial vehicles, or "drones"; and micro-electro-mechanical systems (MEMS), which are now used in everything from air bags to ink-jet printers to video games like the Wii. Though the US military was the original customer for DARPA's applica-

tions, the agency's advances have played a central role in creating a host of multibillion-dollar industries.

What makes DARPA's long list of accomplishments even more impressive is the agency's swiftness, relatively tiny organisation, and comparatively modest budget. Its programmes last, on average, only three to five years. About 100 temporary technical programme managers and a vibrant mix of contract "performers" – individuals or teams drawn from universities, companies of all sizes, labs, government partners, and nonprofits – do the project work. The support staff comprises only 120 people in finance, contracting, HR, security, and legal. The annual budget for the roughly 200 programmes that are under way at any given time is about \$3 billion. With its uncon-



PROBLEMS

ventional approach, speed, and effectiveness, DARPA has created a “special forces” model of innovation.

Not surprisingly, in recent decades there have been many attempts to apply the DARPA model in other organisations in the private and public sectors. All those efforts – or at least the ones with which we’re familiar – have had mixed results or failed. These disappointments have led people to conclude that the successes of this extraordinary agency simply can’t be replicated outside the Department of Defence.

We disagree. We led DARPA from mid-2009 until mid-2012. Since then, we have been implementing the agency’s model of innovation in a new organisation – the Advanced Technology and Projects (ATAP) group at

Motorola Mobility, which was acquired by Google in May 2012. We believe that the past efforts failed because the critical and mutually reinforcing elements of the DARPA model were not understood, and as a result, only some of them were adopted. Our purpose is to demonstrate that DARPA’s approach to breakthrough innovation is a viable and compelling alternative to the traditional models common in large, captive research organisations.

The DARPA model has three elements:

Ambitious goals. The agency’s projects are designed to harness science and engineering advances to solve real-world problems or create new opportunities. At Defence, GPS was an example of the former and stealth technology of the latter. The problems must be sufficiently

ILLUSTRATIONS BY RAJ VERMA

challenging that they cannot be solved without pushing or catalysing the science. The presence of an urgent need for an application creates focus and inspires greater genius.

Temporary project teams. DARPA brings together world-class experts from industry and academia to work on projects of relatively short duration. Team members are organised and led by fixed-term technical managers, who themselves are accomplished in their fields and possess exceptional leadership skills. These projects are not open-ended research programmes. Their intensity, sharp focus, and finite time frame make them attractive to the highest-calibre talent, and the nature of the challenge inspires unusual levels of collaboration. In other words, the projects get great people to tackle great problems with other great people.

Independence. By charter, DARPA has autonomy in selecting and running projects. Such independence allows the organisation to move fast and take bold risks and helps it persuade the best and brightest to join.

Decoding DARPA

DARPA was created in 1958, shortly after the Soviet Union launched *Sputnik*, the first man-made satellite to reach space, sparking a national crisis in the United States. Concern that the Russians had achieved technological superiority led to the formation of the agency. Its founding mission was simple: "to prevent and create strategic surprise."

The day before we assumed the agency's helm in July 2009, one of its former directors took us aside and said: "DARPA is one of the gems of the nation. Take good care of her."

We had both held other jobs at DARPA. They included roles as programme managers for micro-electro-mechanical systems and land-mine detection and running the electronics technology office. It felt entirely different, however, to be responsible for the organisation itself.

Both of us had a visceral sense that we had been handed a high-performance engine. We were intent on running it at the maximum RPM but also wanted to preserve it for the long term. Truth was, no

one seemed to fully understand how the engine worked.

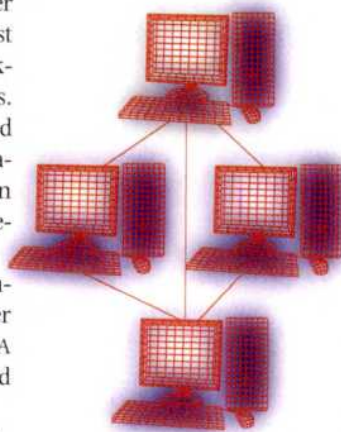
Adding to our concerns were disagreements in the DARPA community that had taken place over the preceding decade. Out of a desire to contribute more directly to current military conflicts, changes had been made in how funds were allocated to researchers and how decisions to continue or kill projects were reached.

With this weighing on us, we set out to discover what made DARPA so successful. We began by comparing notes on what each of us thought were its core attributes. Then we talked with dozens of colleagues – people who were working or had worked at the agency as programme managers and office directors – as well as leaders from industry and universities.

This foundational work led us to understand the key elements of the agency's success – the things we had to preserve and even strengthen. And although it's too early to declare victory, we think the reason we have made such rapid progress at Motorola Mobility is that we grasped which battles we had to fight in order to translate the DARPA model into one that could work in industry.

THE INTERNET

In 1969, DARPA launched ARPANET, the predecessor of the Internet, to allow project teams working with incompatible computer systems at different locations to communicate with packets of data that contained both messages and routing information. The first version had four nodes, at UCLA, UC-Santa Barbara, the Stanford Research Institute, and the University of Utah



A Dedication to Pasteur's Quadrant

A central reason DARPA has been so successful over time is its unwavering commitment to work in what the late political scientist Donald E. Stokes, of Princeton, described as "Pasteur's Quadrant." (See *Expanding Basic Science and Solving Society's Problems*.) It entails pushing the frontiers of basic science to solve a well-defined, use-inspired need. Stokes named the quadrant for Louis Pasteur, one of the founders of microbiology. Throughout his career, Pasteur conducted research that advanced basic science – the fundamental understanding of phenomena – as part of his quest to address pressing societal needs, such as fighting diseases like tuberculosis, anthrax, and rabies, and preventing food spoilage.

DARPA is not the only organisation to live in Pasteur's Quadrant. There are several examples in the life sciences industry and at the intersection of art and engineering, for instance.

EXPANDING BASIC SCIENCE AND SOLVING SOCIETY'S PROBLEMS

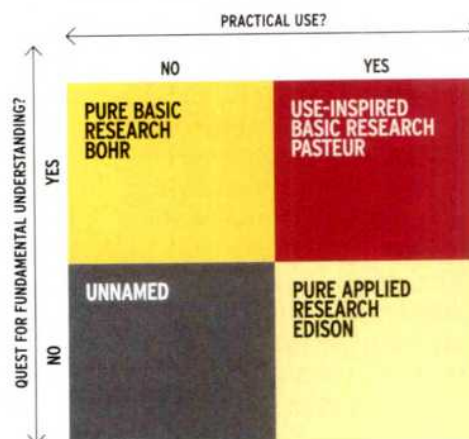
The late political scientist Donald E. Stokes distinguished four categories of research and highlighted how basic science can be employed to create practical applications

Bohr's Quadrant. Work here is curiosity-driven basic research, which seeks foundational knowledge without consideration of practical use. This quadrant is named for the early-20th-century atomic physicist Niels Bohr.

Edison's Quadrant. This category is pure applied research, aimed at finding a solution to a practical problem, and has no interest in explaining or understanding the phenomena of a scientific field. It's named for the inventor Thomas Edison.

Pasteur's Quadrant. Research here expands basic scientific knowledge in order to meet pressing societal needs. This quadrant is named for Louis Pasteur, a founder of the field of microbiology, who invented ways to prevent disease and food spoilage.

Stokes didn't bother to give the fourth quadrant a label; both the science and the use here tend to be uninteresting.



Source: Donald E. Stokes, *Pasteur's Quadrant: Basic Science and Technological Innovation*, Brookings Institution Press, 1997

But in the private sector in general, examples of work in Pasteur's Quadrant are rare. Knowingly or unknowingly, many companies continue to subscribe to the linear model of technological innovation: Basic research is exploratory; applied research connects new discoveries to a practical end; and commercialisation is focused on developing a product that incorporates the technology and manufacturing it at scale. Many business executives view basic research as high risk, to be undertaken with extreme caution because predicting what, if anything, the research will produce is hard, and calculating the value of any discoveries can be difficult.

Some of the research that companies conduct – usually a small portion of the total R&D budget – may be in basic science. But typically, the basic research is dubbed “blue sky”, “exploratory”, or “speculative”, and is divorced from concrete needs or problems. Often companies try to make this research more practical by mandating that the business units select and fund it. Not surprisingly, the probability that they will select projects that challenge or even threaten existing products and services is low. During the negotiations between the R&D department and the business units, compromises are made. The result is work that is the worst of both

worlds. It lands in the lower-left quadrant of Stokes's matrix, where the science is not interesting and no one cares about the goals being pursued. Talent exits, and projects fail more often, not less.

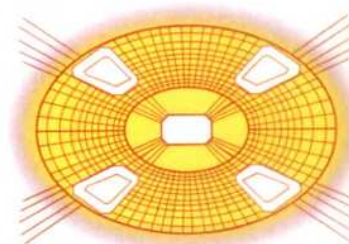
Most corporate research budgets are devoted to innovations critical to maintaining companies' competitiveness in their existing industries. The research agenda is dictated by technology road maps designed to ensure that R&D investments produce reliable outcomes.

A company can usually map user needs and how existing or emerging technologies should advance to meet them. The road map often looks three to five years out, maybe even a decade. Typically, everybody in the industry has developed a similar picture. For example, all semiconductor manufacturers have known how fast to expect circuits and devices to shrink and what manufacturing advances were needed to achieve increasingly smaller features. As a result, companies have used essentially the same manufacturing technologies and chosen to differentiate themselves by the types of circuits and products they created, not how they made them.

The work in Pasteur's Quadrant doesn't exist on road maps. It results in discoveries that upset the current trajectory and can destroy an existing business.

MOTION-SENSING MICROMACHINES

In the early 1990s, DARPA broke new ground in devices that combine sensors, actuators, and electronics on a chip. The US military used them in systems that tracked soldiers inside buildings, armed torpedoes, detected biological weapons, and improved avionics. Today they provide critical functions in air bags, virtual-reality animation, gaming systems like the Wii and Kinect, ink-jet printers, smartphones, tablets, and high-definition TVs



Expecting the research organisation executing against the road map to simultaneously deliver breakthrough innovations that challenge the road map is unrealistic. Instead, companies should create a small, dedicated independent organisation to work in Pasteur's Quadrant. They should take to heart the lesson that the US government learned from the launch of *Sputnik*: The best way to prevent surprise is to create it. And if you don't create the surprise, someone else will.

Identifying projects. There are two ways of identifying projects to pursue.

One is to recognise that a scientific field has emerged or reached an inflection point, and that it can solve, often in a new way, a practical problem of importance.

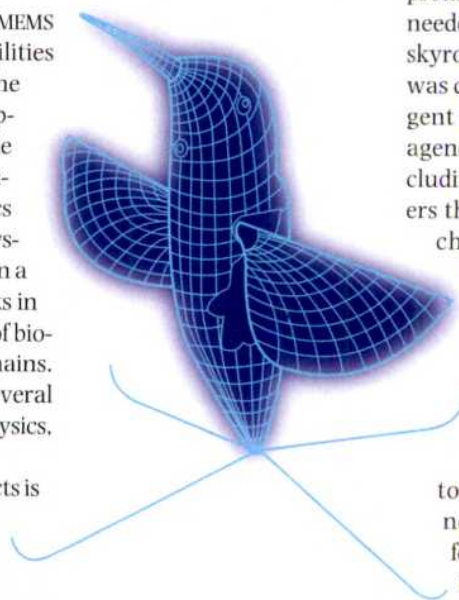
MEMS is an example. In the early 1990s, research on the use of sensors and actuators to create micro-electro-mechanical systems that could be built with standard semiconductor-fabrication methods was a promising, emerging field. The lion's share of the research was being conducted at universities, largely with National Science Foundation funding; it was aimed at expanding basic scientific knowledge and going in a thousand directions.

The DARPA programme focused MEMS research on delivering new capabilities in three applications of interest to the military: inertial navigation (for applications like tracking soldiers inside buildings and arming weapons), optical switches and displays (for avionics and ground-to-air communication systems), and lightweight laboratories on a chip that could quickly perform tasks in the field like detecting the presence of biological weapons and identifying remains. The project broke new ground in several areas of science, including plasma physics, fluid dynamics, and materials.

The second way to identify projects is to uncover an emerging user need that existing technologies cannot address. An example is DARPA's ongoing hypersonic test-vehicle programme to develop an unmanned glider that can fly at Mach 20 after being boosted to near space. The national security objective is to create the capability to reach any point on the globe in less than 60 minutes from the continental United States, with a vehicle

UNMANNED AERIAL VEHICLES

DARPA has been doing research on remotely piloted aircraft, or drones, since the 1960s. One of its most recent inventions is the Nano Hummingbird vehicle, which weighs less than an AA battery and broadcasts video from a tiny on-board camera. It could allow soldiers to scout out threats unobtrusively and from a safe distance



whose course can be changed during flight and whose trajectory does not signal a ballistic missile launch. At this speed the surface of the airfoil is 3,500 degrees Fahrenheit, the temperature of a blast furnace, and is burning as it flies. Overcoming all the challenges involved requires advancing the science of materials performance and assembly, hypersonic aerodynamic control, boundary layer transitions at such speed, heat-transfer-modelling capabilities, and automatic systems for flight termination.

A project portfolio should include a healthy balance of both kinds of initiatives – projects that are focused on new possibilities created by scientific advances and projects that are focused on solving long-standing problems through new scientific development. Both can be identified through quantitative analyses. This instils discipline in project selection and execution. It is the project leader's first task.

Take recent DARPA work in cybersecurity. An analysis showed that over the past 20 years, the average number of lines of code in a malware programme had held nearly constant, at 125. But as malware proliferated, the number of lines of code needed to protect computers from it had skyrocketed, to more than 10 million. It was clear that current efforts were divergent with the threat. This prompted the agency to sponsor several initiatives, including one aimed at designing computers that thwart malware by constantly changing how they operate at the basic level where programmes attack – but in a way that does not affect users' interactions with the operating system or applications. And at ATAP, quantitative analysis showed that the percentage of all 3-D printing that was used to manufacture finished products, not just prototypes, had risen from four per cent in 2003 to 25 per cent in 2012, suggesting it may be possible to make individually customised electronic products en masse, creating the hardware equivalent of the software ecosystem.

Defining a project. Quantitative analysis should also be used in execution plans to help clarify the goals of the project and

Project leaders are focused on managing constant flux – **building, replanning, changing tack**, and moving talent in and out as needs shift

the technical challenges it must overcome. Both the capabilities and the technical solutions may need to be adjusted as the programme proceeds. The original goal may be overtaken by the discovery of a different and better application. Some technical challenges may prove easier or more difficult than expected. As a result, entirely new problems may need to be solved. Since the project leader has the best technical insight and project awareness, he or she must be allowed to make choices about how to reallocate resources, assess progress, and revise goals along the way.

Tracking progress. Typical methods for planning and tracking product-development projects are not well suited to Pasteur's Quadrant. In product development, experience with comparable projects is a good guide for estimating the time and resources required to hit milestones such as the completion of the design, the production of a successful prototype, and ramp-up to full-scale production. Projects in Pasteur's Quadrant require different techniques. They involve fast iterations. Planning should be light and nimble. Progress can be assessed by tracking iterations to see if they are converging on goals, revealing dead ends, uncovering new applications, or identifying the need for unforeseen scientific advances.

Insisting that a team steadily hit milestones established in initial plans can cause it to adhere to a path that – based on something the team has learned – no longer makes sense. Sometimes a setback or a failure is the most effective tool for discovery. If people working on a particular piece of a project experience a failure, it's often because something they encountered surprised them. That's to be expected in high-risk projects. When such events oc-

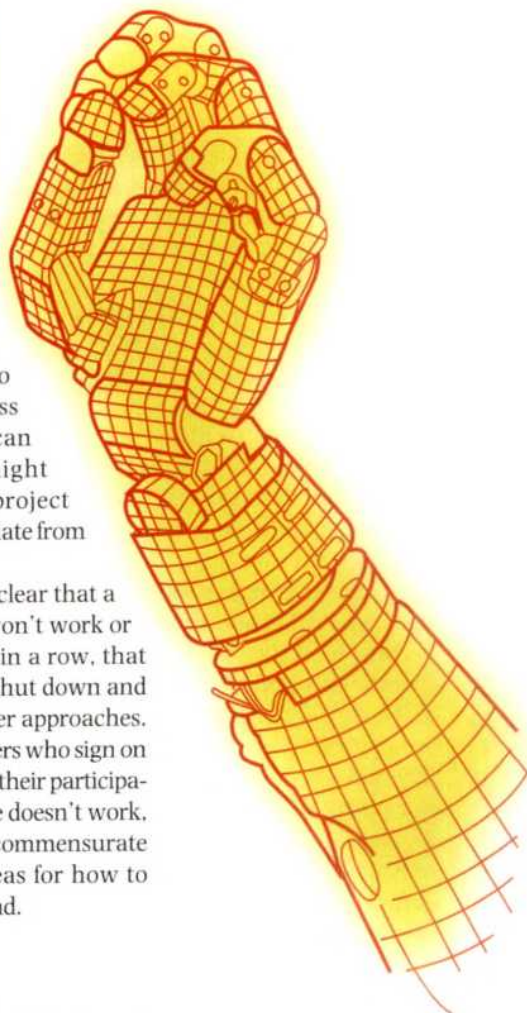
cur, the project leader has to let the team members press forward as long as they can see that the approach might ultimately work within project constraints, even if they deviate from the original course.

That said, if it becomes clear that a given scientific approach won't work or requires multiple miracles in a row, that particular effort should be shut down and the resources shifted to other approaches. At DARPA or ATAP, performers who sign on to a project understand that their participation might end if the science doesn't work, the pace of progress is not commensurate with other efforts, and ideas for how to make it work cannot be found.

Time Limits and Temporary Teams

One of the most effective ways to attract talented performers from a wide array of disciplines, organisations, and backgrounds – and to keep them intensely focused – is to set a finite term for a project and staff it with people working under contracts that last only as long as the jobs they perform contribute to the overall goal.

Fixed durations and tenures. Projects with set time frames (up to five years at DARPA and up to two at ATAP), leaders who leave when the projects end, and the scalability, diversity, and agility of contract performers have an edge over traditional captive research organisations. All of those things make it possible to recruit high-calibre team members from a broader pool and get them on board faster. In addition, you can change the makeup of the group more quickly along the way as the team overcomes certain technical obstacles and others emerge.



REVOLUTIONARY PROSTHETICS

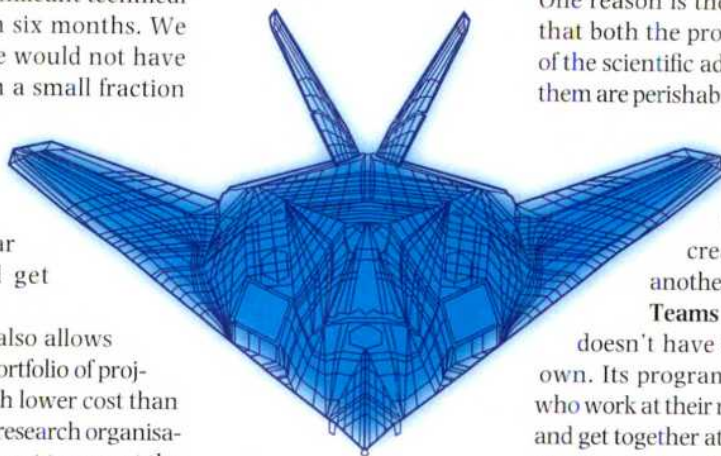
For service members who have lost limbs, DARPA is creating advanced prosthetics. It has already produced artificial arms that offer an increased range of motion and dexterity and currently is working to connect them directly to the brain and simulate a sense of touch. In initial tests, human subjects have been able to operate the limbs with their thoughts

In one project, ATAP was able to contract 40 of the world's best computer-vision experts from 30 entities (including universities, component suppliers, and systems integrators) in five countries and solve the most significant technical challenge in less than six months. We are convinced that we would not have been able to hire even a small fraction of them as permanent employees. Even if we could have, it would have taken more than a year to recruit them and get them working.

The DARPA model also allows a company to alter its portfolio of projects faster and at a much lower cost than a conventional internal research organisation can. During our recent tenure at the agency, we were able to shift significant investments from programmes in space and large air and ground systems to programmes in cybersecurity, synthetic biology, and advanced manufacturing in less than a year.

Individual performers can be quickly reassigned to new work as well. If an organisation involved in the project isn't getting results but its work is important to achieving program objectives, its efforts may be redirected and its contract renewed.

Another benefit of limited tenures is that – combined with a clearly articulated important need and a scientific challenge – they create a sense of urgency. This forces the team to act as a whole to benchmark progress and to continually challenge “how things have always been done.” The hypersonic test-vehicle project didn't set out to investigate the science of flying at Mach 20. It set out to demonstrate within the five-year programme all the technologies necessary to launch a vehicle that could fly from point A to point B at Mach 20 and whose flight could be controlled. On the first flight, there was no aerodynamic control of the vehicle, but we collected nine minutes of Mach 17-20 data (more than had been collected in 30 years' worth of ground tests combined). Less than 18 months later, during the second flight, we achieved more than three minutes of



STEALTH TECHNOLOGY

To address the threat posed by the proliferation of advanced networked air defences, DARPA dramatically reduced infrared, visual, acoustic, and radar signatures, which led to the design of new aircraft, such as the F-117 Nighthawk

fully aerodynamically controlled Mach 20 flight – a first.

As a practical matter, a high-risk effort by a diverse set of world-class experts can be sustained for only a limited period. One reason is the intensity. Another is that both the problems and the novelty of the scientific advances needed to solve them are perishable. If the desired capability cannot be created within a fixed time frame, it is likely that someone else will create it or come up with another solution.

Teams of contractors. DARPA doesn't have any laboratories of its own. Its programmes fund performers who work at their respective organisations and get together at least twice a year to review progress and objectives.

DARPA's MEMS programme team, for instance, included experts in basic materials science, design and simulation tools, and semiconductor production. They were employed at the University of Michigan, Stanford, and other schools; large companies such as Honeywell, Alcatel, and Analog Devices; a number of smaller companies; and government labs such as Sandia and Brookhaven. And the hypersonic test-vehicle programme has drawn world-class researchers in computational fluid dynamics, aerodynamic control, and materials science, and experts on manufacturing, rocket control, range safety, data collection, and telemetry.

On DARPA projects, people who normally wouldn't interact collaborate and inform one another. A scientist in a new field often has so many possibilities to pursue that it can be difficult to choose among them and concentrate. And often people in industry trying to create new applications encounter a need to make an advance, but some aspect of the science blocks them. When these diverse performers work together, the industry team members focusing on the applications may say to the scientists, “I don't have enough yield here,” or “I'm not generating enough photons.” And the scientists may say, “I can solve that problem for you” or “I cannot solve that problem, but I can solve this one. Does that help?” The same kind of interactions



may happen across disciplinary lines. This dynamic produces a tremendously creative, fast, iterative cycle and generates breakthroughs in time frames that seem impossibly short.

A special breed of project leader. The project leader orchestrates the entire effort. He or she determines what pieces of work are needed to produce a specific result, conducts a proposal competition, and contracts organisations to do the work. (These organisations assemble whatever subcontractors they require.)

Project leaders who can successfully lead DARPA-like efforts possess the skills of the best CEOs of science- or engineering-based start-ups. Some project leaders may have held such positions. Others may come from academia, government labs, corporations, and nonprofits. They need to have deep technical or scientific knowledge, be natural risk takers, and be thought leaders who can create a vision that inspires an entire community.

Project leaders oversee the collection of performers, manage the technical details, and make all major decisions. They handle budgets, contracts, execution issues, speaking engagements, and customer relations. At DARPA that may entail explaining a project in three minutes to a four-star general who may or may not have a technical background, delivering a technical talk at a research conference, or working out intellectual property concerns with a university.

Many, but not all, project leaders have PhDs. Typically, they're in their thirties or early forties, five to 10 years past earning their last degree, and already have made important achievements (delivering a product to market, successfully leading a university research center, starting a company). Confidence is important. These midcareer leaders may recruit people who are older and more accomplished; they must be able to hold their own.

They rarely have MBAs. The skill set that you acquire in business school is often about defining the market opportunity, writing a plan, and then faithfully executing it. By contrast, DARPA and ATAP are more focused on managing constant flux – building, replanning, changing tack, and moving talent in and out as project needs shift.

How do you find such leaders? At DARPA we found them through our networks and those of the agency's current and former programme managers, office directors, and performers. In the roughly three years we headed DARPA, about 75 of the 100 programme managers changed as programmes ended and others began. We did not have trouble finding exemplary people to fill those positions.

At Motorola Mobility, we are tapping

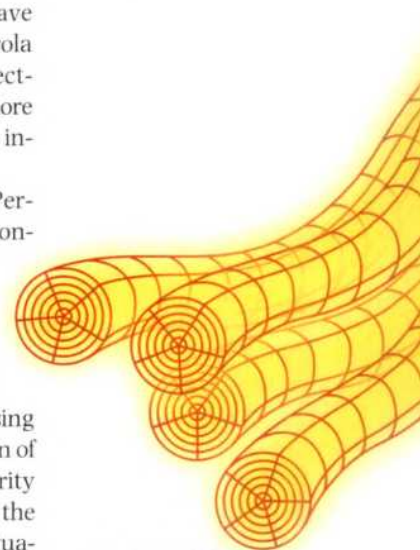
Decisions should not be made by committee. **Breakthroughs** do not lend themselves to **consensus**

our networks too, of course. We also have an expanded set of people within Motorola and Google who seek bold, fast, project-based work. Sometimes we find them; more often, they find us. Additionally, we use industry recruiters to identify talent.

DARPA has multiple attractions: Performing service to your country, the honour of being asked to work for an elite organisation with a storied history, and the opportunity to pursue something amazing, often countercultural.

As an example, in 1992, university and industry efforts in MEMS were focusing on the wrong thing – the miniaturisation of the devices. An unconventional minority opinion was that the opportunity lay in the integration of electrical, sensing, and actuation with signal processing and computing, and in building the devices with the same materials and processes used to manufacture semiconductors. That meant placing the highest priority on fabrication, system design, and design tools. DARPA not only permitted that view to emerge; it encouraged it. As a result, the agency was able to recruit talented leaders and performers.

The DARPA model gives exceptional leaders an environment where they can pursue what others may think is a crazy idea, challenge an entire industry, or catalyse the formation of one. Because they're not permanent employees, project leaders worry less about rocking the boat



CARBON COMPOSITES

To meet the military's needs for lighter, more durable materials, DARPA created new forms of substances like carbon fibres, ceramics, and gallium arsenide. They are now used in a wide range of products – such as body armour, cell phones, and golf clubs

and jeopardising their careers. They focus instead on changing the world. And many of them do.

At ATAP, we give project leaders the right to be impatient, as we did at DARPA. They refuse to wait for obstacles to be cleared. (One week of delay is one per cent of an ATAP project leader's time at the organisation.) Because our structure is flat, they elevate issues almost immediately to us. We clear them fast. This creates tremendous speed and momentum.

ATAP doesn't have all of DARPA's attractions. But it does share a vital one: the opportunity to make a difference and realise a bold vision. In addition, it gives people a chance to work for an elite commercially focused team in a fast-paced industry and at higher compensation than DARPA can offer. As ATAP proves in the coming years that it can innovate like DARPA, we expect the network of enthusiastic, qualified candidates to grow.

Independence

An advanced technology and projects group must function in ways that differ from the normal company. Adjustments are needed in such areas as staffing, budgeting, and protecting intellectual property and proprietary information. In addition, the group's breakthrough innovations may lead to new businesses that require major departures for the company – or that threaten existing businesses. (If DARPA had needed the US Air Force's authorisation to develop stealth technology in the 1970s, the work may have never been done. The Air Force initially did not want the technology and repeatedly tried to stop the project. Only the intervention of the secretary of defence protected DARPA's efforts.) For these reasons, the team must operate with some independence from the rest of the company.

In a corporation, an advanced projects group should report to the chief executive officer or the operational executive ultimately responsible for nurturing and protecting innovations. This person should have control of significant resources and broad P&L responsibilities rather than a staff position. He or she should not be someone who might be motivated to use the resources to supplement product de-

velopment dollars or to protect an existing business area.

Crucially, decisions about which projects to pursue must not be made by committee. Breakthrough innovations, by their very nature, do not lend themselves to consensus. Instead, the parent company should establish a multiyear budget with critical mass, ensure that the leaders of the advanced research group have visibility into – and the ability to influence – corporate objectives, and then give them the freedom to select projects. Within broad limits, they should also be able to reallocate and reprioritise spending within the group and among projects over time.

Given how new the DARPA model is to industry, it should come as no surprise that at ATAP it has been necessary to challenge existing assumptions about the way things operate. We've also had to push against the mainstream organisation's tendency to enforce consistency and uniformity. Uniformity is not always desirable. When different outcomes are wanted, different approaches are necessary.

Hiring is a case in point. A high-tech company has a natural tendency to permanently hire as many world-class technical minds as possible. That is the right approach for much of the organisation, where experience is essential. It allows the company to build a foundation of expertise, execute with greater probability of success along a road map, generate opportunities for innovation, motivate employees with career advancement, and develop future leaders.

This approach is precisely the wrong way to build a team of project leaders who will challenge the wisdom of experience and take on risky efforts. For the first six months after ATAP was launched, employment offers to project leaders often encountered the same questions: "Why are you hiring this person for only two years? Why not hire them as a permanent employee?" It took a while to get people in the mainstream organisation to understand that hiring a technical rock star for his or her entire career might actually be counter to the mission of consistently generating breakthrough innovations over time.

The same kinds of concerns were raised about compensation packages. Project



GLOBAL POSITIONING SYSTEMS
DARPA's involvement in developing a precision navigation system that used satellites for the US military dates back to 1959. Two decades later, the agency digitised GPS signals and created the technology for small GPS receivers

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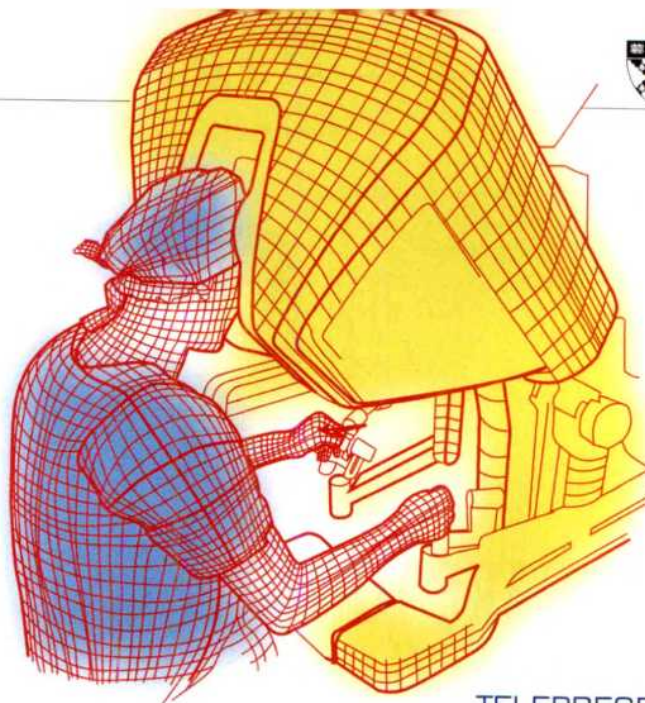
leaders recruited from outside the company take a greater risk because their jobs will last only two years. It's fair and logical that their compensation reflect that extra risk and be greater than what they would earn as permanent employees but less than the payoff of a successful start-up.

Similarly, we had to develop a much shorter, simpler nondisclosure agreement for use with prospective external performers. We did this to address the specific needs of ATAP's diverse community of performers, especially start-ups. In its first 14 months, ATAP reviewed 200 to 300 start-ups and contracted with over 100 of them. These young companies move fast and often do not have captive legal resources. Our modified NDA, developed with Motorola's legal department, recognises this fact. The result is that we routinely execute an NDA in less than a day rather than the typical weeks or months.

In the case of intellectual property, ATAP's need for speed and flexibility clashes with conventional approaches that focus on exclusive ownership of all IP from the beginning. Working with ATAP, Motorola's legal team created development contracts that ensure access to intellectual property and allow for future negotiations about exclusivity. In so doing, we avoid protracted negotiations in the early stages of development. We gain speed and first-mover advantages.

As a result of adopting the DARPA model, ATAP has been able to launch eight projects, involving more than 120 companies and six universities and expertise from 11 countries, in 14 months. Three of those projects have produced multiple prototypes that demonstrated the viability of the envisioned product. Two of them advanced to low-volume production, were then further developed in collaboration with our colleagues in other parts of the company, and will soon ship in Motorola products. Some ATAP projects have made foundational advances in areas such as big-data analytics, the way graphics are rendered on mobile devices, and a faster, more secure way for users to sign on to their smartphones, tablets, or computers. By any measure, this is fast. It was accomplished with a staff of fewer than 40, including the project leaders and us.

THERE IS A detrimental divide between efforts to advance science and the develop-



TELEPRESENCE SURGERY

With an eye towards bringing medical help to the wounded through robots on battlefields, DARPA has supported research on remote surgery. The resulting advances helped pave the way for robotic devices such as the Da Vinci Surgical System

ment of new products and applications. The DARPA model is the only approach that has bridged that divide on a sustained basis. It has allowed the agency to recruit the best scientific and engineering minds, wherever they might reside, and to engage them to solve difficult problems.

The "special forces" model is a radical departure from the "spend a lot of money on research and hopefully something good will eventually come out of it" approach, which makes companies reluctant to undertake ambitious internal research. DARPA's model offers an alternative, and its record of success proves that breakthrough innovations can be produced consistently, in remarkably short time frames, with a small, flexible, and agile organisation.

Our current efforts suggest that organisations in the public and private sectors can dramatically increase their production of breakthroughs by adopting this model. The products and services created by these breakthroughs will improve the competitiveness of companies and countries. They also may restore a belief, that we can, indeed, shape the future. ♦

 **Regina E. Dugan** and **Kaigham J. Gabriel** were formerly the director and deputy director of the Defense Advanced Research Projects Agency. Dugan is currently a senior vice president at Google's Motorola Mobility business, where she leads the Advanced Technology and Projects (ATAP) group. Gabriel is a corporate vice president at Motorola Mobility and the deputy director of ATAP. This article was published in HBR, October 2013. Copyright © 2014 Harvard Business School Publishing Corporation. All rights reserved.

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NO SMALL CHANGE

MODERN RETAIL MAY NOT BE A THREAT TO ITS EXISTENCE, BUT YOUR NEIGHBOURHOOD KIRANA SHOP IS SPIFFING THINGS UP ANYWAY.

By ARPITA MUKHERJEE



On Sundays, Shishir Ashar is "relatively free". In his world – which revolves around New Ambica Stores in Mumbai's suburban Marol area – this still means he fields phone calls and tends to customers, politely and deftly. Sixty-year-old Suman Agarwal enters his store and rattles off the items on her list. Placing all the items in bags, Ashar takes the opportunity to suggest new products for her to try, and she takes the bait.

"I've been coming here for the past 15 years," she says, as she pays her bill of ₹2,026. She says she shops here every fortnight, while praising the quality of the products and the fact that it grinds wheat into flour for her. She can even return products. There's a bigger store right across the road, but Agarwal does not shop there. The 25-year-old Ashar says that much of his clientele is like her.

The 30-year-old, 450-square-foot store got a makeover two years ago. Ashar and his elder brother Jignesh decided to renovate to ensure cus-

tomers demand. "Customers are ready to pay if they get service," says Ashar. He adds that the ten shops in the area are all supermarkets. "People want everything under one roof. Had I continued to focus only on groceries, business would not have been good."

Like many owners of traditional *kirana* stores (mom-and-pop outlets), Ashar is not worried about modern retail shops. He has modernised his store while retaining the characteristics unique to *kiranas* that cannot be easily replicated. "The value proposition of *kirana* stores is unbeatable by



Longer shelf life: Vijay Singh, MD and CEO of Aaramshop.com, helps traditional shops, such as All Needs Store in East Delhi, modernise

SHEKHAR GHOSH

RETAIL MARKET IN INDIA

Size of organised and unorganised sectors

2011/12

2016/17*



CAGR 15%

ORGANISED RETAIL

Share in total sales

2011/12

2016/17*



CAGR 24%

*Estimates
CAGR is compound annual growth rate
Source: ASSOCHAM-YES Bank study

"The opportunity really is from the web to the consumers' doorstep within 45 minutes using the existing supply chain... without anyone incurring any cost"

modern retailers," says Ankur Bisen, Senior Vice President for retail and consumer products at global consultancy Technopak. Sunil Kataria, COO for sales and marketing in the SAARC region at Godrej Consumer Products, concurs, and says *kirana* stores are efficiently run. A study by Assocham and YES Bank shows *kirana* stores will

continue to be the largest contributor to overall retail sales.

Kirana stores offer credit, home delivery for even small orders, unpackaged foodgrain sold by weight, and maintains personal relationships with customers. The occasional *kirana* shop even offers home delivery of fresh vegetables.



ADITYA KAPOOR

On his own: Agosh Malik (right), third-generation owner of The Morning Store in Delhi, takes orders via his website

WHAT'S NEW...
Closed-door set-up
Focus on hygiene
Aisles
More premium products
Use of technology
Third-party support
Aggressive marketing

...AND WHAT STAY
Close and personal
consumer connect
Credit services in many
Home delivery
In-depth knowledge
of neighbourhood

One such example is R. Ganesan, who ran away from home as a 13-year-old, and came to Chennai to see his matinee idol M.G. Ramachandran. In 1970 he set up a vegetable shop under a thatched roof. Within a decade, Sri Ganesh Vegetable Shop, now in spacious premises, became the go-to store for fresh produce in Chennai's Adyar locality. Unlike others, Sri Ganesh back then, allowed customers to choose the vegetables. In the mid-1990s, Ganesan ventured into groceries by setting up Vanga Vanga Supermarket. (*Vanga* means 'come' in Tamil.) Today both shops are under one roof – a 3,000 sq ft facility in the posh Gandhi Nagar area, not far from where Ganesan started out. In the last six years – around the time retail chains began to pop up in the neighbourhood – business has more than tripled. "Quality products, reasonable prices, customer service and the blessings of the Almighty are the key to our success," he says.

Traditional grocers also have an edge over modern ones in items such as grains and masalas, since they

have better knowledge and sourcing ability, says Sameer Satpathy, Executive Vice President and Business Head, Marico India. "These are areas where the penetration of modern trade has been less," he says.

The smarter *kirana* store operators are tweaking product portfolios and adopting best practices from modern retail. They carry premium products, and have designed their stores to have aisles, security cameras and closed doors to improve hygiene and give them a modern look.

"They're definitely not under threat," says Godrej's Kataria. "But they're realising they need to change with the changing consumer profile." He says products that move fast at modernised *kirana* stores include relatively high-priced items such as anti-roach gel, room and car fresheners. Ashar says Nutella sells well.

As *kirana* stores modernise, consumer product makers such as Godrej and Marico say they gain. Marico's Satpathy says: "We see this as an opportunity to compete. Strong brands gain from such stores, because they're picky about their assort-

ment."

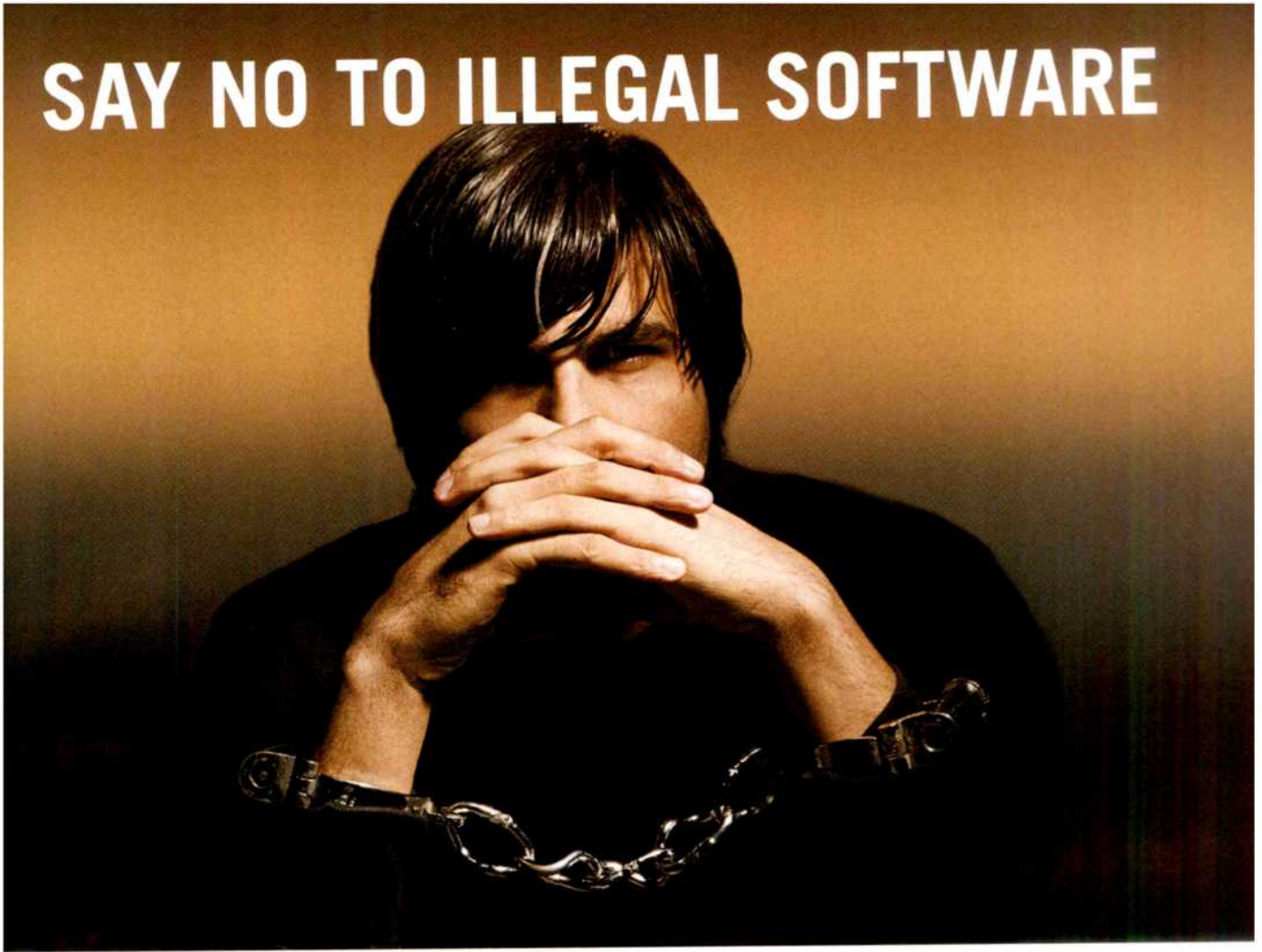
Prakash Shah, who runs Swastik

General Stores in the Mumbai's Chembur locality, is from the Kutchh region of Gujarat, and runs the 500 sq ft store his father set up 50 years ago. Today it looks like a mini supermarket. Referring to the aisles that let customers browse, Shah says: "Every customer today wants to be served first, no matter when they enter the store, which wasn't possible earlier."

To overhaul his shop, Shah took the help of Trans Retail Ventures, which operates the Aasaan chain of stores and helps shops modernise. "There are about 30,000 Kutchhi *kiranas* across Mumbai," says Aasaan's Executive Director, Vinayak Joshi. "If we're able to convert even 300, it is good." The not-for-profit organisation has worked with six *kirana* stores so far, and wants to convert at least 50 more by next year.

After modernisation, Shah says,

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clientele has grown and older customers are happier. Aasaan pays up to ₹1,300 a sq ft for renovation, and has made an initial investment of around ₹5 crore in its endeavour.

Technology providers such as SAP, and online grocery platform Aaramshop.com, are also helping modernise shops. SAP's solution, SAP Ganges, aims to connect manufacturers, distributors and *kirana* stores in a transparent system. "What makes the big difference is access to data for targeted promotions and discounts that companies want to provide to *kirana* stores," says Anirban Dey, Managing Director, SAP Labs. "Distributors and companies can look into the inventory and help *kirana* stores prevent stockouts." Stockout refers to the exhaustion of inventory.

Dey adds that SAP Ganges's association with banks would help *kirana* stores get micro credit, as banks can get real-time information about a store's sales. The SAP Ganges pilot launch is scheduled for late April in select cities.

Aaramshop has created a network of some 3,000 *kirana* stores' inventory. Customers place orders online, and Aaramshop directs them to a retailer nearby. "The opportunity really is from the web to the consumer's doorstep in 45 minutes, us-



ANIRBAN DEY, MD, SAP Labs "What makes the big difference is the access to data for targeted promotions and discounts that consumer product companies want to provide to *kirana* stores. Distributors can look into the inventory and help *kirana* stores prevent stockouts"

ing the existing supply chain... without anyone incurring any cost," says Vijay Singh, Managing Director and CEO of Aaramshop.

Aaramshop is trying to change the perception that deals are available only at large-format stores, which tend to advertise more, and to highlight offers. With simple tools, it helps retailers relay information about deals to customers.

Aaramshop and SAP earn profits not from *kirana* stores but from consumer product companies, distributors and – in SAP's case – also banks.

Modernisation of *kirana* stores encourages the younger generation to stay in the family business. For example, G. Venkatesh, the son of Chennai grocer Ganesan has joined his father's business. What does Venkatesh, an MBA, think of the business? He says: "It is a good business to be in as long as you stay focused on customers. Our customers are loyal, and the proliferation of retail chains has not taken them away. This means we are doing it right."

The hand of *kirana* shops has

been forced in some ways by changing times. For instance, both Ashar and Shah now limit the credit extended to older customers. Newer ones pay cash, they say, mostly for top-up purchases, while monthly supplies come from big-box retailers.

Agosh Malik, the third-generation owner of the Morning Store in New Delhi's Greater Kailash locality, says *kirana* shops are being hurt by

inflation and modern retail chains. "Companies like Unilever and Nestle run promotional schemes at big-format chains that attract the customers, while we keep trying innovative methods to retain our customer base," he says. His strategy is e-commerce, which he started in April.

Malik is not part of the emerging network of *kirana* shops, consumer product companies and technology service providers. His business is among those who are modernising on their own, and who often find new ways to reach out to customers. Aggarwal Supermarket, a West Delhi store that works with Aaramshop, sends out offers to some 800 customers via Whatsapp.

For now, young *kirana* shop operators such as Ashar in Mumbai, Malik in Delhi and Venkatesh in Chennai, have found ways to keep up the personal connection with customers. Although the *kirana* business is healthy, the sense of business between a family and a family-run neighbourhood store may be under threat. ♦

ADDITIONAL REPORTING BY N. MADHAVAN AND ARUNIMA MISHRA

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AJAY THAKUR

SAMEER SATPATHY, EVP & Business Head, Marico India "Traditional grocers have an edge over modern retailers in items such as grains and masalas, since they have better knowledge and sourcing ability"

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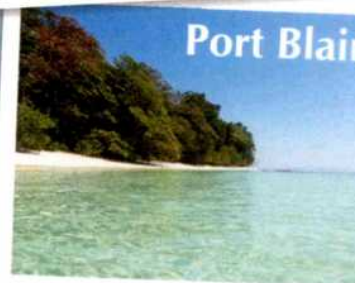
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Passing the Baton

Subhash Chandra, 63, has divided up his \$3-billion empire between his two sons, Punit and Amit Goenka. That was the easy task. Growth's next.

By **ANAND ADHIKARI, AJITA SHASHIDHAR and MAHESH NAYAK**

When asked to comment on speculation that he is hanging up his boots, Subhash Chandra quips: "I'm retired." Sitting in his second-floor office in the busy headquarters of the \$3-billion Essel Group in Mumbai's posh Worli locality, group promoter and Chairman of its flagship, Zee Entertainment Enterprises Ltd (ZEEL), says with a grin: "If you see my attendance register, I wasn't in office for eight to 10 days."

The 63-year-old Chandra reveals that he has handed over the infrastructure business, with a portfolio of ₹28,000 crore, to the younger of his two sons, Amit Goenka. Some interpret this move as settlement of the succession issue, as it clearly divides his business empire between his two sons. Elder son Punit Goenka has been managing the media and entertainment business since July 2008.

In his conversations with *Business Today*, Chandra has gone on record for the first time about

division of businesses amongst his brothers, the absence of a holding company structure, the brothers holding majority stakes in their companies, and a host of other issues.

For Chandra, who started out more than four decades ago, when he was barely 17, it is business as usual, but with fewer operational responsibilities.

Chandra, who is of Marwari heritage, began as a commodity trader in his family's business in Hisar, Haryana, in the late 1970s. He went on to start nine path-breaking businesses. Two failed: the Indian Cricket League, and a satellite communication business. "Seven survived and are doing well – not a bad ratio," he says, patting his own back jokingly.

His image – neatly combed hair and a goatee – endures, as does his knack for spotting opportunity. Essel Propack, launched in the early 1980s, was a path-breaking move (it is now the world's largest speciality packaging company). So was Asia's largest amusement park Essel World,

also launched in the mid-80s. In 1992, Chandra launched the country's first satellite television channel, Zee TV. Later, he broke the monopoly of state-owned Doordarshan to launch the first private news channel, Zee News.

Chandra, who practises *vipassana*, is currently giving shape to his health and wellness business in the US. "It takes up 10-12 days of my time in a month," he says. Dapper in a grey suit, with an Indian flag pin on his lapel, Chandra shows no signs of giving up control altogether.

"The media and entertainment businesses are in autopilot mode," he says. "I only oversee to ensure they are going in the right direction." The company's vision for 2020 is to be among the top 10 global media houses, with a viewership of a billion, and 50 per cent of revenues coming from overseas.

Chandra now happily pushes files to Subodh Kumar, who took charge as Executive Vice Chairman of ZEEL in February. Kumar, a former IAS officer



Handed over: Subhash
Chandra (seated) with sons
Amit (left) and Punit

PHOTOGRAPHS BY NISHIKANT CAMRE



Risk-taker: Chandra's younger son Amit plays a big role in the organisation

ZEE'S RISING STAR
Chandra's younger son Amit Goenka has taken charge of the infrastructure business

AGE: 37 years

EDUCATION: MBA

FIRST BRUSH WITH BUSINESS: Founded web hosting company Cyquator Technologies in early 2000

LOVES TO TALK ABOUT: Technology and innovation

CORE COMPETENCE: Involved in group non-media businesses, including education, lottery and utilities

CLAIM TO FAME: Built online lottery business in six years. Revenue jumped to ₹3,400 crore, but business suffered when states started banning lotteries

JOB ON HAND: Targeting infrastructure portfolio of ₹40,000 crore by March next year

EXPERIENCE: Has already seen two economic downturns in his work life

AFTER WORK: Mostly at home, with his two kids

Amit Goenka

Essel Infra, Pan India Network, Zee Learn, Shirpur Gold

"We are not into EPC [engineering-procurement-construction]. We are only looking at BOT [build-operate-transfer], annuity and PPP projects"

of the Maharashtra cadre, also oversees education initiatives under Zee Learn since May 2013. Chandra says: "I intervene or give inputs only when I hear something from the ground." He says he makes it a point to attend all board meetings, though.

Clear Roles

Over the past decade, he has been increasingly focused on separating the roles of his brothers and settling the ownership structure within the

Essel Group. About eight years ago, he gave independent charge to his younger brothers, Laxmi Narain Goel, now 61, Jawahar Goel, 59, and Ashok Goel, 52. Today, they all own majority stakes in their companies. Laxmi Narain owns and manages real estate, and film and gas distribution. Jawahar has the media distribution and direct-to-home businesses, and Ashok Goel looks after the packaging and amusement parks businesses. "We own a small stake in each

other's businesses," says Chandra.

The Essel Group presents a united face, with Chandra as Chairman, but the businesses are clearly run independently. There is no holding company. "The finances of each brother's businesses are also separate, but we help each other if someone requires any support," he says.

Chandra, who founded almost every business that he has handed to his brothers to manage, has retained the biggest businesses, with revenues totalling \$2.9 billion (around ₹17,374 crore). His empire consists of media and entertainment, infrastructure, education, health care, online gaming and gold refining.

A year ago, he demarcated his sons' roles without fanfare. Punit has the media business, and Chandra merged power and water distribution and infrastructure for Amit to handle. In a way, giving the young infrastructure business to Amit has settled

the succession issue. Chandra's move is similar to what Bajaj Auto's Rahul Bajaj did six years ago – he gave the bread-and-butter auto business to elder son Rajiv, and the new financial services business to younger son Sanjiv. Chandra says he was not thinking about succession when he divided the roles. He adds: "But if this is the way it happens, then it happens. Amit himself was interested in the non-media businesses."

Rising Star

While the media and entertainment business is cruising along with Punit at the helm, Chandra is grooming Amit to manage the non-media businesses. "Amit is more of a risk-taker and has a mind of his own, while Punit is someone who creates consensus and then goes with it," says their father.

Amit, 37, has been dabbling in the non-media businesses right from the start. He worked for a few months under his father and, after completing his MBA, started off as an entrepreneur. In the early 2000s, he launched Cyquator Technologies, a web hosting and e-solutions company, with financial support from his father. At that time, IT and dotcoms were attracting investors and high valuations. "Personally, I felt there were too many of them, but I didn't want to disappoint him," says Chandra. The dotcom bust in 2001 meant that Amit had to scale down Cyquator's expansion plans.

The next stop was at Zee Learn, where Chandra had him do a short stint. In January 2002, the CEO of Zee Learn, which runs preschools, K-12 schools, and training institutes for animation and media, decided to leave. That left the organisation of over 1,000 people without anyone at the helm. "I was involved with Zee

Learn only for seven to eight months," says Amit. Zee Learn is now a ₹100-crore company, and scaling up is a challenge because of the non-profit nature of the business.

In 2003, Amit moved to the Pan India Network, the group's online gaming and lottery venture launched in March 2002. He was interested in online gaming as it is technology-led. He built the Playwin business from ₹650 crore in the first year to ₹3,500 crore in 2007. The

Punit Goenka

Zee Entertainment, Zee News & DNA

"In the next two or three years, growth from the international market should be consistent at 10 to 12 per cent"

business – essentially state lotteries online – expanded to 14 cities.

However, the online lottery business became saturated as many state governments started banning lotteries from 2010 on. Most of these bans were in states that generated high revenues, such as Haryana, Karnataka, Kerala, Tamil Nadu and West Bengal. Business is now limited to five states.

Amit's entry into infrastructure is connected with the online lottery business. In 2011, Playwin was in a quandary because the bans resulted in a manpower surplus. Chandra suggested to Amit that he study consumer interface businesses, because of their synergy with lottery business.

He also recalls telling his son: "There is no private-sector utility company. Why don't you get into that area?" Eventually, the group entered the power distribution busi-

ness in 2011 with Essel Utilities. It first bid successfully for three cities – Gwalior, Ujjain and Sagar – in Madhya Pradesh. In 2012, it grabbed the opportunity to acquire, Spanco, a Maharashtra-based distribution company which was faring poorly. In next six months, Amit and his team made it EBITDA-positive. Essel Utilities also bid in other states, such as Bihar and Jharkhand. "We will have power distribution operational in five cities soon," says Amit. In 2012, the busi-

ness model was expanded to include gas distribution and municipal solid waste management.

Around 2008, the group entered the infrastructure business through a venture called Essel Infraprojects, which builds roads, power plants, sports complexes and special economic zones. Last year, Chandra gave Amit additional responsibility by inducting him into this business. With that, gold refining and utilities on his plate, Amit now plays a big role in the organisation.

Infrastructure Game Plan

The entry into the infrastructure sector preceded the utilities business by four years. Essel Infraprojects bid for a road project in Maharashtra, and then for state and national highways in Madhya Pradesh, Punjab, Uttar Pradesh and elsewhere. Today, roads account

for 30 to 35 per cent of the infrastructure portfolio.

Chandra envisions a business that generates some kind of annuity. Amit says: "We are not into EPC. We are only looking at BOT, annuity and PPP projects." (EPC stands for engineering, procurement and construction, BOT for build-operate-transfer, and PPP for public-private partnership.) Solid waste management is emerging as an important infrastructure segment. As with the media business, Chandra aims for an internal rate of return of around 18 per cent to take on a project. "This is the threshold," says Amit.

Chandra says he expects the infrastructure business to be sizeable in three to four years. The group plans to bid for Mumbai's second airport. It is looking at more than just organic growth – Chandra surprised the market with an unsuccessful bid on IVRCL, a Hyderabad-based infrastructure company, in March 2012.

The infrastructure business faces many challenges due to the economic slowdown. Bigger rivals have already been affected by the economic slowdown, and issues relating to the environment and liquidity. The portfolio is highly skewed towards a single state – Madhya Pradesh. Chandra defends the company, saying it is not as focused on MP as it used to be. He says: "We have five road projects other than MP. Today, we have projects in Mumbai, Punjab, UP and in South India."

Chandra's interests in real estate, gas distribution and power generation overlap with those of his brother Laxmi Narain. The latter, with his two sons, manages Suncity Projects, a real estate developer, and Siti Energy, a gas distribution company.

Chandra says, however, that the group is more interested in developing properties for entertainment and tourism. Amit says Essel Infraprojects does not invest in buying land. "These are purely government-based

BIG OVERLAP

Younger brother Laxmi Narain Goel's three existing businesses overlap with Subhash Chandra's future businesses



REAL ESTATE:

Chandra's projects include large commercial and residential complex in Bhopal city, redevelopment project in Mumbai's Bandra suburban area, media city and IT park in Kolkata, and Asia's largest township in Hyderabad

GAS DISTRIBUTION:

Chandra plans to enter the city gas distribution business



POWER:

Chandra is building a renewable energy portfolio of solar and hydropower, with plans for thermal power

projects. There is no up-front investment from our side in terms of acquiring the land," he says.

Essel Infraprojects is already involved in power generation. The brothers do have a non-compete clause that requires each to take the others' permission before launching a venture. "We are seeking permission and help from my brother Laxmi to do the gas distribution business," says Chandra.

He says the brothers avoid doing businesses that overlap. It complicates matters somewhat that everyone uses the Essel brand – similar to the Bajaj brand, which is used for everything from hair oil to motorcycles. Chandra concedes that some solution is needed to the brand issue. "We will think of putting it forward among the brothers," he says.

Meanwhile, the focus is on ZEEL, the flagship. Chandra links the group's entry into the financial services

business with the earlier practice of using the ZEEL balance sheet. A listed company, ZEEL burnt its fingers for using surplus money for promoter funding. The stock market registered its disapproval. The group then launched Essel Finance, a diversified financial services company. "We are strictly not taking any money from ZEEL," says Chandra. That is reflected in the company's stock performance – it is up nearly 18.5 per cent since January 2013, compared with a 15.4 per cent rise in the BSE Sensex. Its revenues in 2012/13 were ₹3,699 crore, profit after tax was ₹718 crore, and reserves and surpluses stood at ₹3,816 crore.

Chandra says the group is on the lookout for acquisitions. It recently bid \$1 billion for Chellomedia, an international distributor of channels, content and video services, but was outbid by a rival who offered €1 billion.

ZEEL, with 34 domestic and 33 international channels, has set big targets for itself. In July 2013, it adopted a tagline that signifies its global ambitions: *Vasudhaiva kutumbakam*, Sanskrit for "The world is my family". The company currently gets 11 per cent of its revenue from international operations. Its channels reach out to 700 million viewers in 169 countries.

ZEEL Managing Director Punit Goenka, 38, says he hopes that more than 50 per cent of the revenues of his business will come from international operations by 2020. "In the next two or three years, growth from the international market should be consistent at 10-12 per cent," he says.

Overseas Footprint

The company's international plans are in sync with its obsession for profitability. It has carefully chosen regions where subscription revenue is more important than ad revenue. "The average revenue per user in a country such as Indonesia is \$20 per household, as opposed to \$3 in India,

making profitability higher," says Punit. The company recently ventured into Indonesia with the Bollywood-focused channel Zee Biskope dubbed in Bahasa. The company already has a presence in Russia (Zee Russia), and plans to enter Vietnam soon.

Even in markets such as West Asia and North Africa (Zee Alwan and Zee Aflam), where channels are free to air and revenue comes from advertising, the company airs content from its flagship channel, Zee TV, in the local language, or Bollywood content dubbed in Arabic. These channels do air chat shows featuring local anchors, but Punit says that for the time being, the main offering will be Bollywood content repurposed in local languages.

Punit's mentor, Pradeep Guha, who currently heads 9X Media, says it is a brilliant strategy. "In TV, the more you can exploit your content across platforms and across countries, the better. All international studios do this." So, if ZEE spends ₹40 crore on satellite rights for a blockbuster such as *Chennai Express*, its monetisation options are not limited to its flagship channel (Zee TV) and the two film channels (Zee Cinema and &Pictures) – it can also air it on its international channels. "This will help the company turn around faster," says Guha.

Although both Star India and Viacom18 have international operations, neither offers channels for the local population in the country it is present in. Punit says his company is considering getting into South Africa and East Europe. "We are also evaluating whether Latin America and North America would be better to invest in."

Still a Strong #2

ZEE's bet on its international business is an attempt to break out of the ever-increasing clutter in Indian broadcasting. The company has not had a great run in the home market. The Zee TV channel, apart from taking the

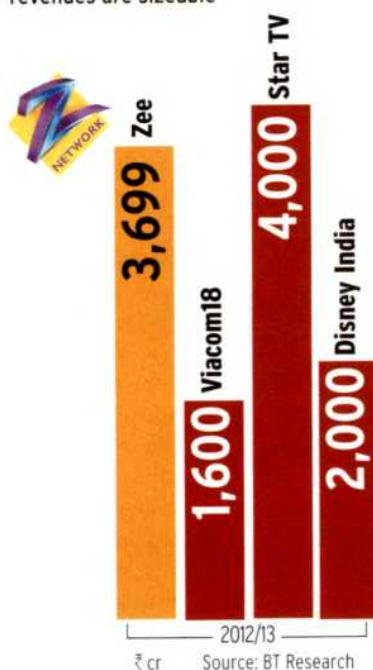
top spot for a week (in the Hindi general entertainment category) thanks to *Chennai Express*, hasn't been able to challenge Star Plus for almost a decade. In the regional market, the network has a dominant position in most regions, but is constantly being challenged by later entrants such as Star India. Also, the acquisition of ETV has made Viacom18 extremely competitive in regional markets.

The bigger worry for ZEE is English-language entertainment and sports. Its English channels – Zee Café and Zee Studio – are far behind rivals such as AXN and Star Movies. The sports business, with channels such as Ten Cricket, Ten Sports and Ten Action, is also bleeding.

The rumour mill says ZEE wants to get out of sports but can't find a good valuation. However, Punit says he is committed. "It's a business we chose to be in, as it gets us a younger audience, which no other genre can." He says he is willing to lose money on sports, but not as much as rivals are.

BREAD-AND-BUTTER BUSINESS

Zee TV lags in TRPs, but its revenues are sizeable



He refers to Star India's investment of ₹4,000 crore just to get BCCI (Board of Control for Cricket in India) rights.

The company is aggressive with niche channels such as Ten Golf, Zee Q (an education channel), and Khana Khazana (a food channel). Punit admits that the company is losing money on these, too. "But they are gradually turning around," he adds.

Guha of 9X Media says that while profitability has always been top priority for Chandra, he also wants to build a diversified network. He says: "So what if 20 per cent of his business gives 80 per cent of his revenue? Subhashji has always wanted Zee to be synonymous with entertainment."

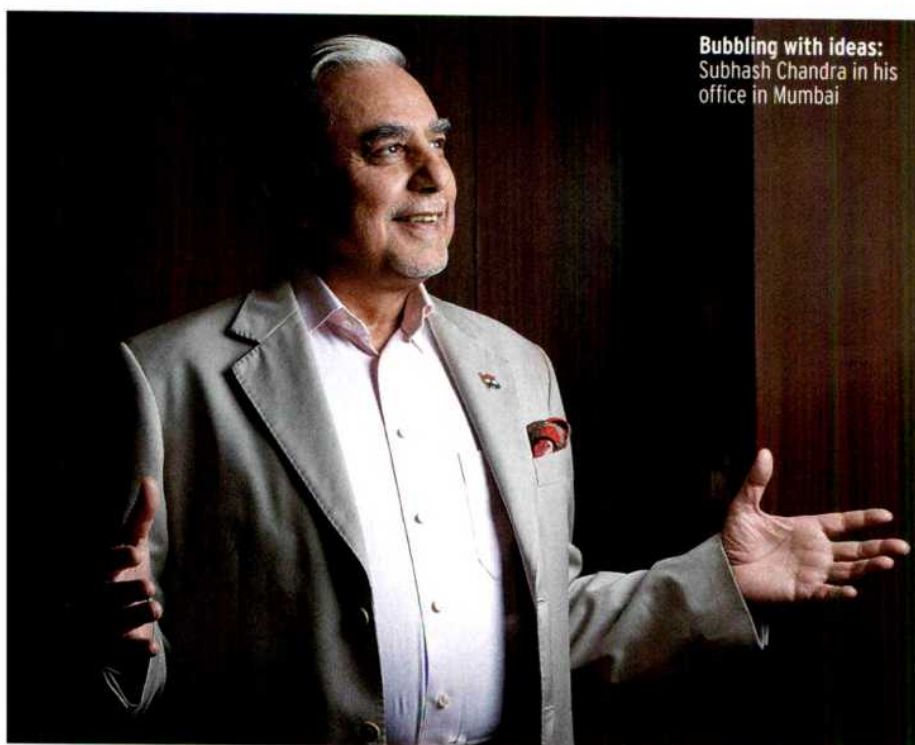
While Punit takes on challenges in media and entertainment, and Amit handles non-media businesses, Chandra will spend time on the wellness business, in which the group has invested \$150 million so far. "This will be a \$1-billion business in five years," he says. It will take him another year to establish it firmly. "Then I'll think of doing some other business," he says. "One thing at a time."

The stability that Punit has brought to ZEE is reflected in its spiralling profits (₹718 crore in 2012/13). "He transformed it into a well-oiled, profitable business without compromising on quality," says Salil Pitale, Vice President at Axis Capital, a Mumbai-based brokerage. He adds that he considers ZEE the most profitable media company in the country.

Guha says Punit and Chandra complement each other well. "Subhashji is a visionary, but he is not a great implementer. Punit is out-and-out a people person. He's a go-getter. He knows how to get his team to perform." Punit's colleagues in Zee concur. "The great ideas have always come from Subhashji, but he is difficult to approach. It's Punit who brought enthusiasm into the business," says a senior executive who has been with ZEE for over a decade. ♦

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“Amit is more of a risk-taker. Punit is someone who creates consensus”



Bubbling with ideas:
Subhash Chandra in his office in Mumbai

Subhash Chandra, 63, has been a pioneer businessman in many ways – the first to enter into the satellite TV business, and the first to start an amusement park – and is still bubbling with ideas. He has quietly carved up the ownership of the Essel Group between himself and his three brothers, and gone further to provide independent roles to his two sons. Punit gets the media business and Amit, the infrastructure-related ones. He discusses his future challenges with Anand Adhikari and Mahesh Nayak. Edited excerpts from the interview:

You carved up the family business amongst yourself and your three brothers some years ago. Is there a clear ownership structure for the brothers?

We had a clear demarcation all along, but in 2009/10 we sat down and we separated. All of us own a small stake in one another's businesses. But each brother owns majority stakes in his own. There is no group holding company, but the brand can be used among the brothers. The finances of each one's business are also separate, but we help one another. My brother Jawahar Goel owns and runs Dish TV. Ashok

Goel is managing Esselworld and Essel Packaging. Laxmi Goel has real estate, movie distribution and the mall businesses. But each one is free to do what he wants to do.

Is there a non-compete clause in the agreement between the brothers?

Yes, there is a non-compete clause. If someone is getting into a business where one of the brothers is already present, we take permission [from that brother]. For instance, the utility company has the mandate to do gas distribution. We are seeking permission and help from Laxmiji's company to do business in gas distribution. We have also written down that as far as possible we will avoid entering businesses where one brother is already operating.

Do you have real estate ambitions, a sector where your brother Laxmi Goel is already present?

We are not that much into real estate. We will be developing a property besides Esselworld, but that would be more of an entertainment and tourism destination.

Your elder son Punit has been handling the media business since 2008. Now you have put your younger son Amit in charge of the growing infrastructure business. Was this done with an eye on succession?

[I have] not thought from that angle, but if that is the way it happens, then it happens. Amit himself was interested in the non-media businesses. [Punit and Amit] are different from each other. Each has his strengths and weaknesses. Amit is more inclined to take risks and has his own mind, while Puneet is someone who creates consensus among people and then goes with it.

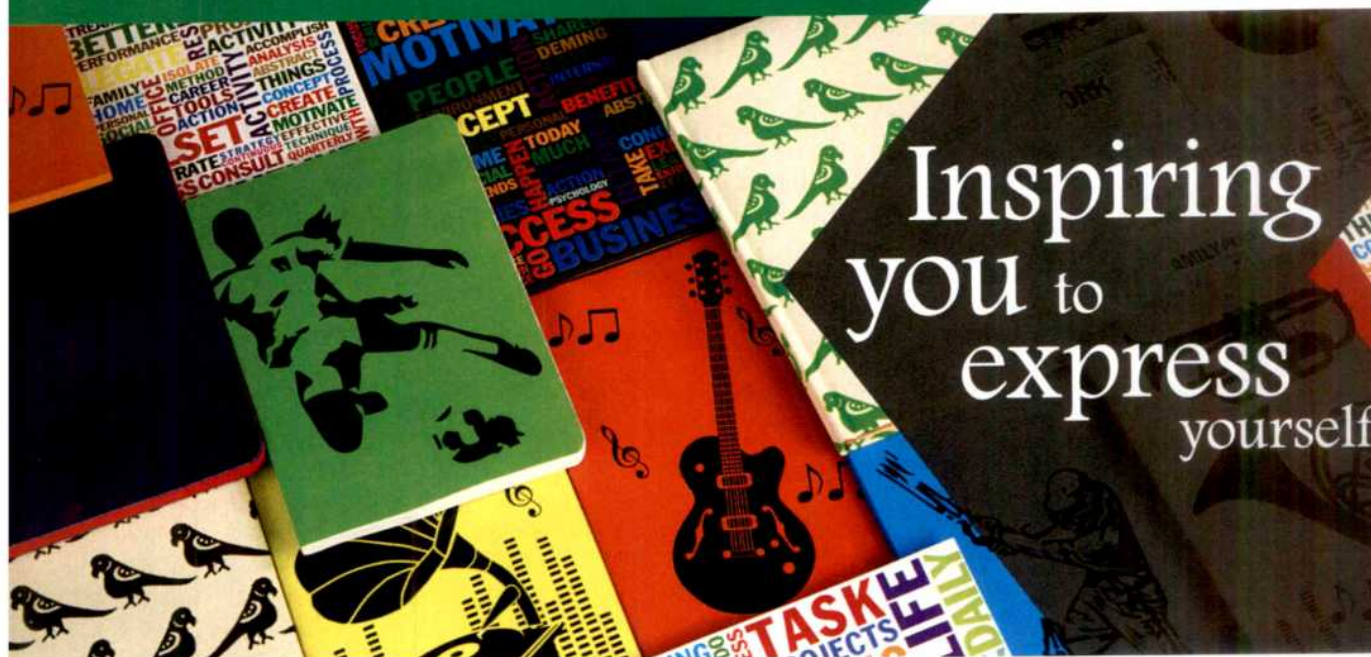
What are the main challenges of the infrastructure business?

The issues surrounding infrastructure today are because of environmental and other external reasons. Infrastructure companies are in a



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stress situation. They have over-borrowed and profits are not there. At Essel Infra we have not gone that way. We are keeping a minimum profit in projects. I think Amit with his CEO make a good team. In three to four years, the infrastructure business will be a sizeable business.

The way the whole thing started was we [thought we] should be in the consumer interface business. It started with the lottery business. My feeling is that there is no private sec-

ness business in the US. It takes up 10 to 12 days of my time in a month. However, I do oversee the media and infra businesses to see if they are [going] in the right direction with a 2020 vision.

Will the infra business be bigger than the media one by 2020?

It could become. The government has to put more emphasis on infrastructure.

— we are building a 250-room wellness centre in New York state, based on nature care and ayurvedic principles. It should open by the summer of 2015. From there we plan to go to other countries. We have invested \$150 million in this business, but if you ask five years from now, it will be a \$1-billion business.

How are you financing your infrastructure business?

There is promoter funding. We have put ₹600 crore into the infra business. There is also quasi equity available from infrastructure development funds like IIFL. They give us quasi-equity which is taken as promoter equity for the project. There are couple of projects where we took third-party private equity investors to get funds. However, know that our projects are self-funded. We have borrowed at the promoter level long-term funding.

What about your finance business?

The reason we entered that business was because ZEE itself was sitting on a lot of cash. We had burnt our fingers in the past. ZEE is a listed company and in the past we had taken money from ZEE for promoter use and that was not liked by the capital market and they punished us suitably. But now we are strictly following [the rule] that we will not be taking money from ZEE. But still, ZEE has plans to grow through inorganic growth and acquisitions, these will require funding. For example, we bid for an international company Chello, it's a Liberty Media company. We bid for \$1 billion and somebody paid them €1 billion and we missed out. It [would have] fitted with our future plans on media business.

Today, ZEE's return of treasury is six to seven per cent. The idea is if ZEE puts money in the financial services company it will earn better returns. Essel Finance will raise money from companies like ZEE. We are also raising a real estate fund. ♦

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“In 5 years, our US wellness business will be worth \$1 bn”

tor utility company in this country at this moment [so I thought] why don't you go into utility areas which is a consumer facing business? Then we said we will do power distribution, gas distribution and solid waste management for municipal corporations.

Roads started as a separate infrastructure company. At that time Amit was not handling infrastructure. This [utility company] started afterwards. Amit was doing consumer facing business so I asked him to get into these types of consumer facing businesses. This is how he bid for some cities in Madhya Pradesh, came into Maharashtra, took an existing franchise in Nagpur. We had already won a power supply project in Aurangabad. The company also won a water supply bid in Chhattisgarh. The projects are progressing well. We will make the utility vertical into a separate company. At that time, Amit was not looking after the infrastructure business. He showed interest in the infra business, so we merged the businesses.

How do you divide your time between the two businesses – media and infra?

Well, I do not spend any time in either of these businesses. The media [business] is on autopilot. Personally, I am handling the health and well-

Any plans to get into new businesses?

The wellness business will take me one more year to settle. Then I will think of doing some other business. One thing at a time – that is what I have learnt. I have started nine new businesses in India. Two of them didn't work out – one being the Indian Cricket League and other the satellite project. Seven survived, and are doing well. Not a bad ratio.

Tell us more about the health and wellness business in the US?

It is a 360-degree business. We started with a 24-hour business channel. Today, the TV station reaches 40 million American homes. We have our own website. On the channel, to get mass appeal we discuss diabetes and other ailments. On the website, we discuss niche issues and personal issues. This is the second pillar of the wellness business. The third is the 24x7 helpline where people can call if they feel lonely. They call us to discuss their psychological, relationship and health issues. We have trained staff which coaches them on how to cope with life. Then there is the fourth pillar – we sell natural products for skin and hair care. We give them ayurvedic herbal medicine, which we call self-optimisers. Then there is a fifth pillar



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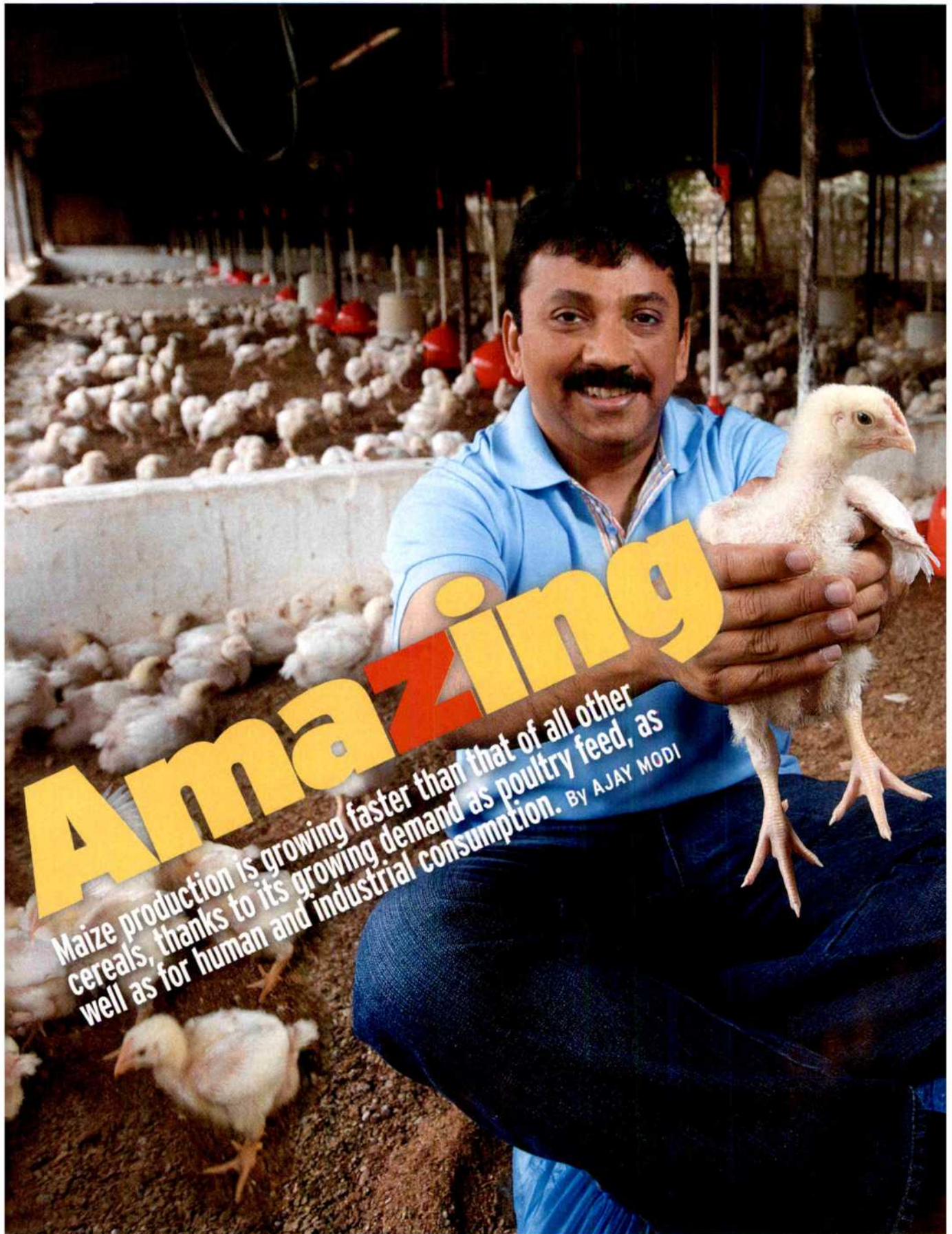
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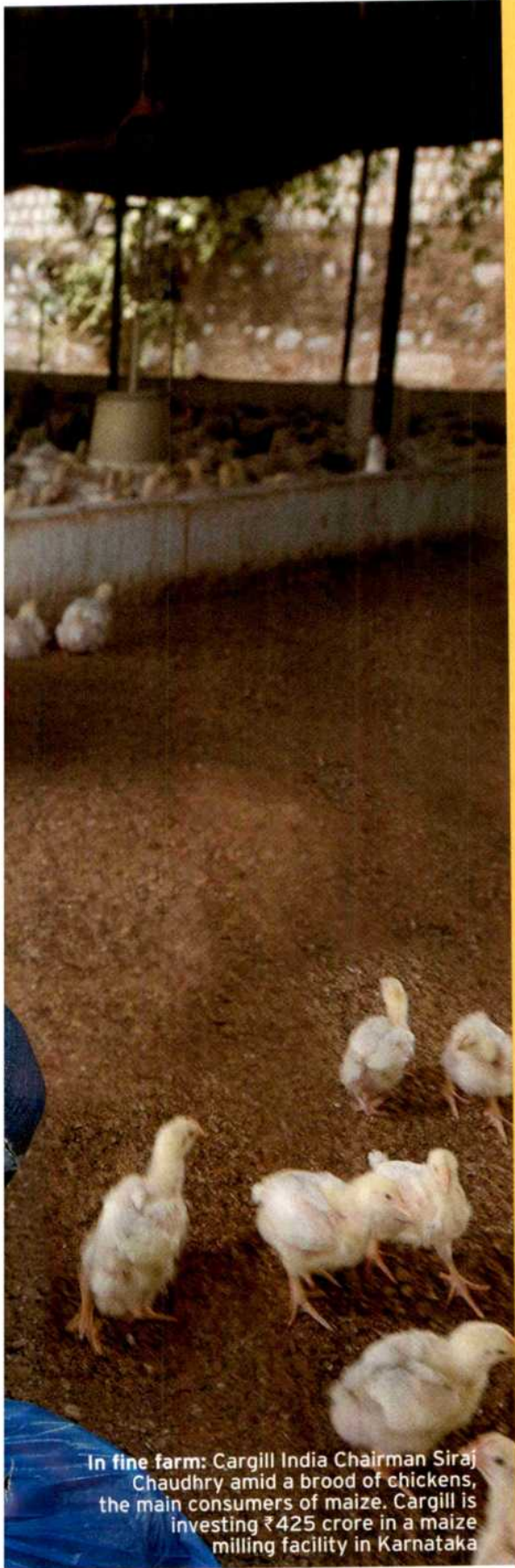
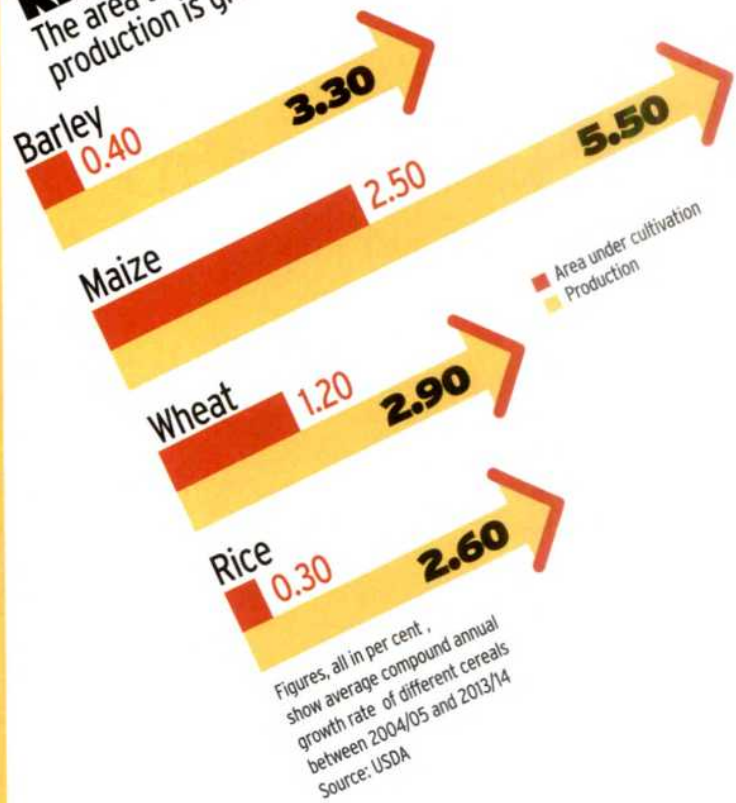


Amazing
Maize production is growing faster than that of all other cereals, thanks to its growing demand as poultry feed, as well as for human and industrial consumption. By AJAY MODI



Rising Harvest

The area under maize as well as its production is growing the fastest



In fine farm: Cargill India Chairman Siraj Chaudhry amid a brood of chickens, the main consumers of maize. Cargill is investing ₹425 crore in a maize milling facility in Karnataka

VIVAN MEHRA/www.indiatodayimages.com

Siraj Chaudhry, Chairman of Cargill India, is betting big on maize. The Indian unit of global agribusiness giant Cargill Inc. is investing ₹425 crore in setting up a maize milling facility in Davangere in Karnataka that will consume 300,000 tonnes of the commodity every year. "We will continue to grow in maize milling," says a confident Chaudhry.

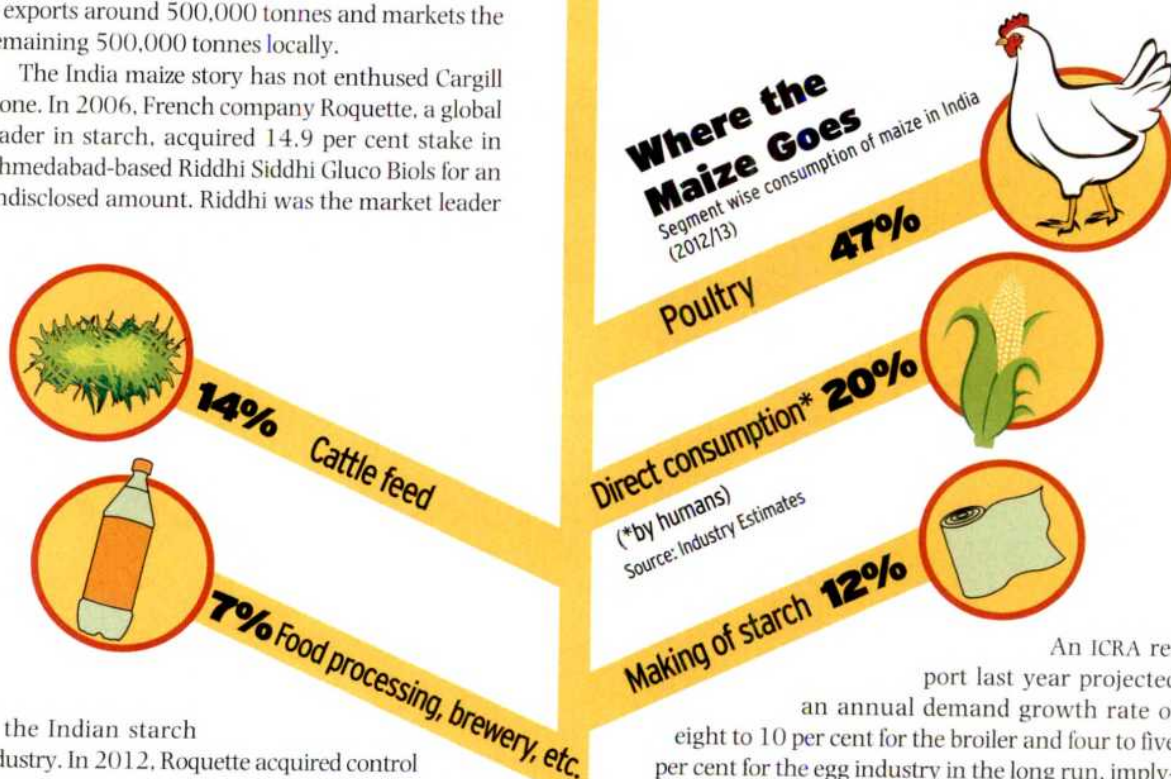
The plant, likely to be operational in June 2015, will produce feed for poultry and cattle, and foods such as glucose and maltodextrin, a source of carbohydrates. Cargill India is also setting up a cattle feed plant in Bathinda, Punjab at an investment of ₹70 crore that will consume another 10,000 tonnes of maize every year. "The government of Punjab wants to encourage maize cultivation. Our plant will give farmers the confidence to shift from paddy and grow more maize."

says Chaudhry. (Maize and corn are two names for the same grain-crop.)

Indeed, the demand for maize is spiralling in India. Historically, demand for the grain has been driven by the poultry and starch industries. But with changing food habits, the demand for food additives derived from maize is also growing, says Chaudhry. Cargill India already handles one million tonnes of maize (nearly five per cent of domestic production). It exports around 500,000 tonnes and markets the remaining 500,000 tonnes locally.

The India maize story has not enthused Cargill alone. In 2006, French company Roquette, a global leader in starch, acquired 14.9 per cent stake in Ahmedabad-based Riddhi Siddhi Gluco Biols for an undisclosed amount. Riddhi was the market leader

Poultry, the country's biggest broiler chicken producer, has a separate division to procure maize. It procures over 800,000 tonnes of maize annually for feed requirements. "Maize has greater calorific value, is rich in amino acids and has less toxins compared to grains like millet and broken rice," says a company official. Wheat is better than maize as a feed but it is costlier by over 20 per cent, he added.



in the Indian starch industry. In 2012, Roquette acquired control of Riddhi's starch business for ₹985 crore. The new company Roquette Riddhi Siddhi remains the biggest starch maker in the country. It is managed by Ganpatraj Chowdhary, the founder of Riddhi.

"The demand for starch is strong and is growing at 10 to 12 per cent every year due to rising consumption in the food and pharma industry. We process around 600,000 tonnes of maize every year into starch and are exploring expansion options," says Chowdhary. The domestic starch makers together consume about 2.6 million tonnes of maize every year. Maize starch, an excellent source of carbohydrate, is a highly versatile industrial raw material and finds extensive applications in the textile, food, pharmaceutical and paper industries.

Maize is preferred in poultry feed because of its easy availability. India has grown to be the fifth-largest egg producer globally and 18th-largest producer of broiler chicken. In the poultry feed industry maize constitutes about 60 per cent of the feed and therefore is a critical raw material. Suguna

An ICRA report last year projected an annual demand growth rate of eight to 10 per cent for the broiler and four to five per cent for the egg industry in the long run, implying a rising demand for maize as a feed.

At an annual production of about 23 million tonnes, maize is the third most produced grain in India after wheat and rice. Over the past 10 years, maize has been the fastest-growing grain crop in India. It has witnessed 56 per cent output growth in the period compared with 20 per cent for rice and 32 per cent for wheat. The growth has been supported by an absence of government control widely seen in wheat and rice. The government, from time to time, has been imposing restrictions on the private purchase of wheat and rice and the exports of these grains are also regulated.

Interestingly, maize is the most grown grain globally. "Traditionally, most maize went to livestock as feed but modern technology has helped it find new uses in food industry with animal protein and starch driving global demand today. International maize trade is now larger than the international rice trade," says Samir Shah, Managing Director and CEO at commodities exchange NCDEX. India is one of the

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103 Experience
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Cultural Minefields
Erin Meyer

Blue Ocean Leadership

How to engage your employees and stop wasting everyone's time

BY W. CHAN KIM AND
RENÉE MAUBORGNE

PAGE 46

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beneficiaries of the booming international maize trade. The country exported a record five million tonnes of maize in 2012/13, valued at ₹7,000 crore and is now the fourth-largest maize exporter after the US, Brazil and Ukraine. In the last five years, exports have doubled.

According to Shah, transparent pricing and grading – developing standardised quality for the trade of the commodity globally – have contributed in a large way to the growth of maize production in India. “NCDEX futures trading in the last decade helped develop the value chain and physical market for maize by giving advance price signals and allowing risk management,” he says. Strong demand has driven average maize prices from ₹711 a quintal in 2007/08 to ₹1,326 in 2013/14.

With its wide applications, maize is also referred to as the Queen of Cereals. It is estimated that nearly one-fourth of the stock keeping units in a modern grocery store contain maize in one form or the other. These range from toothpaste, detergent, paper, dyes, soaps to artificial sweeteners, fructose, etc. Maize also finds application in food containers, plastic food packaging, baby powder, diapers, medicine, vitamin tablets, textile products, candies and so on. Maize-rich breakfast cereals, cooking oils, snacks and popcorn have also become popular. Internationally, maize has been processed to produce bioethanol in a big way for blending with auto fuels. In fact, maize is the only cereal that has such diverse uses.

Meanwhile, the government has appointed an inter-ministerial panel on crop diversification to help farmers look beyond paddy which consumes more water and fertiliser than maize. The agriculture price support policy of the central government is also designed to boost maize production. In order to incentivise farmers to diversify, the government fixed the same minimum support price – ₹1,310 per quintal – for maize and common variety of paddy in 2013/14. Six years ago, the support price of common paddy was 20 per cent higher than maize. It is also unique since it can be grown round the year though the bulk of production comes from rabi, the winter crop.

Spurring maize production in the country is technological intervention in the form of hybridisation. It involves crossing two genetically different plants to produce a desired seed that can grow high yielding plants. The area under maize hybrids is expanding every year and it is expected to lead to a surge in production. Cotton production in the country, for instance, has grown by 160 per cent since 2003/04 with the adoption of hybrid cotton seeds.

In fact, maize is the first major cereal crop to benefit from hybridisation.

But while Indian maize production has been rising, there is still a long way to go – the country's productivity is less than half of the global average. The productivity in India is 2.5 tonnes per hectare against the world average of 5.5 tonnes. US, the biggest maize producer, has a productivity of 10 tonnes. Currently, hybrids constitute only about 30 per cent of the area in India under maize compared with 85 per cent in the US. Directorate of Maize Research, a body under the Agriculture Ministry, estimates that the area under hybrids will go up to

It is estimated that one-fourth of the stock keeping units in a modern grocery store contain maize in one form or the other.



90 per cent by 2050. “Maize production has the potential to double in the next ten years provided we keep our focus on increasing productivity and keeping markets open for exports,” says Ashok Gulati, Chair Professor of Agriculture at Indian Council for Research on International Economic Relations.

It is also important to ensure better price discovery of maize. “Maize is mostly grown by small and marginal farmers. Hence, improved price discovery and better realisation of crops become key in giving a push to maize production in India,” says Shah. Futures trading in maize is a step in that direction. NCDEX had launched maize futures contract in 2005 with Nizamabad in Andhra Pradesh as a delivery centre. With the growing importance of Bihar as a maize producer it recently launched maize rabi futures with Gulabghat in Bihar as a delivery centre.

B.K. Anand, Director and Business Head (Grains and Oilseeds Crush) for Cargill India, says maize used to be a subsistence crop for the farmers few years ago. “With the rising allocation of wheat and rice at affordable prices in the public distribution system at the central as well as the state level, farmers have moved away from maize consumption and it has led to a rise in the marketable surplus,” he says. Direct consumption of maize is expected to dip further with rising prosperity levels in rural India. ♦

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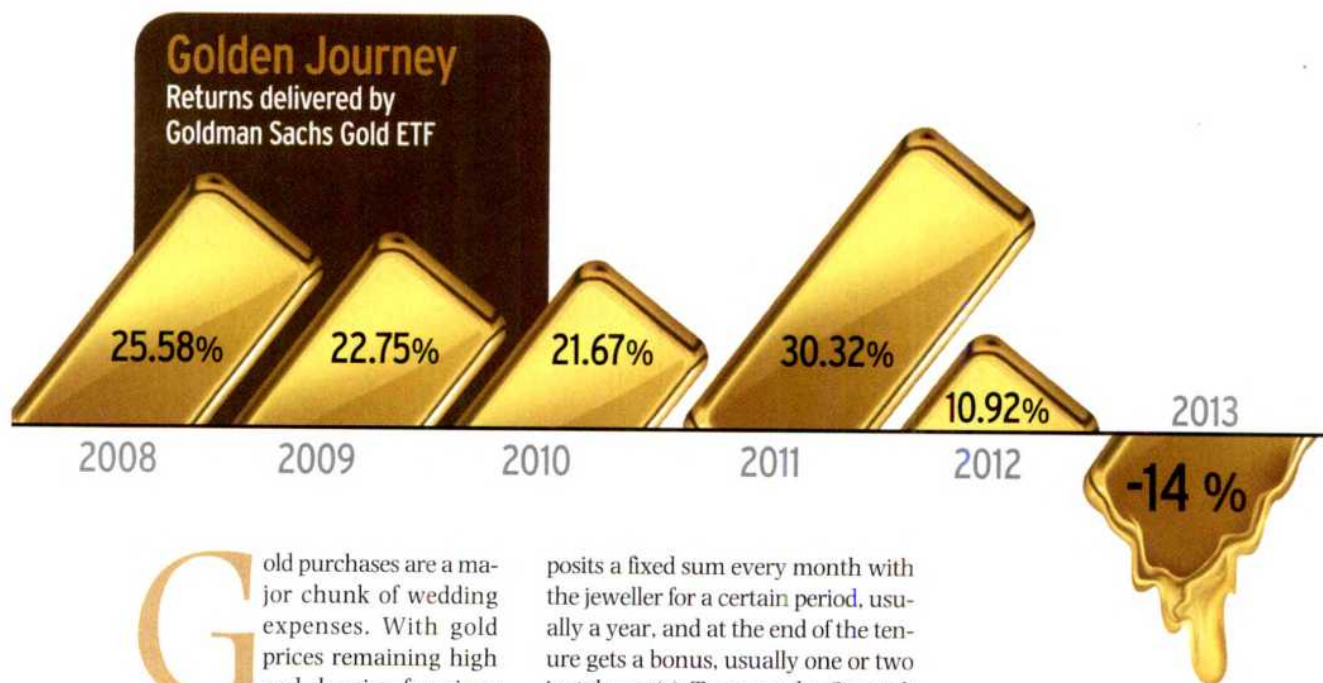
For a story on the maize revolution in Bihar, go to www.businesstoday.in/maize-bihar

MONEY

RETURNS & RISKS
THE DRAWBACK OF GOLD SCHEMES IS THAT THE INVESTOR HAS NO CHOICE BUT TO BUY JEWELLERY AND PAY HIGH MANUFACTURING CHARGES

Gold-Plated Investments

Gold buying schemes offered by jewellers make little sense as investment options. By RENU YADAV



Gold purchases are a major chunk of wedding expenses. With gold prices remaining high and showing few signs of coming down, various jewellers are offering monthly saving schemes through which people can set aside funds for buying jewellery. We look into the merits of such schemes.

Golden handshake

Gold-saving schemes work like bank recurring deposits. The investor de-

posits a fixed sum every month with the jeweller for a certain period, usually a year, and at the end of the tenure gets a bonus, usually one or two instalment(s). Tamanna by Gitanjali Jewels and Golden Harvest by Tanishq are a few examples. "There is flexibility of purchase. Our schemes endeavour to make purchase of jewellery easier for all," says Sandeep Kulhalli, Vice President, Marketing and Retail, Jewellery Division, Titan Company Ltd.

To see how these schemes work,

consider an example. A person deposits ₹2,000 every month for 12 months and the jeweller pays an additional instalment. At the end of the tenure, he can buy jewellery worth ₹26,000 ($12 \times ₹2,000 = ₹24,000 + ₹2,000 = ₹26,000$). The gain percentage comes at 8.33 per cent. Some jewellers, for instance PC Jewellers,

pay two instalments as bonus, which amounts to a gain percentage of 16.67 for the investor (see *Competing Offers*). On the face of it, it's not a bad deal at all.

In some schemes, gold worth one instalment is credited to the investor's account at the end of the tenure. At that time he or she can buy jewellery equal to the gold accumulated. One example of such a scheme is Swaminidhi by Tanishq. It's a 12-month scheme under which the investor can opt for fixed/flexible payment options. In the flexible option, the investor can pay according to his convenience.

However, in both cases, the minimum payment has to be ₹2,000 per month. Now, for example, a person starts investing in January 2014 and pays ₹5,000 as the first instalment. If gold is at ₹500 per gm, 10 gm will be credited to his account. Now, if next month he deposits ₹10,000 and gold shoots up to ₹550 per gm, his account will be credited with 18.18 gm gold. If after a year he accumulates 100 gm gold in his account and prices rise to 600 per gm, he will be entitled to buy jewellery worth ₹60,000.

However, there is a catch here. He can buy only jewellery, whose price will include making charges as well. He will not get pure gold worth ₹60,000. That is why such a scheme

will work exceedingly well for investors if gold prices are rising. But if prices fall during the scheme's tenure, the investor will lose.

By making it easy for investors to buy gold, the jeweller is ensuring confirmed sales, on which he can charge a making fee, which can be arbitrarily decided and range from nine to 30 per cent of the value depending upon the design and brand. This reduces gains by a big margin. Investors can't opt for gold bars and coins, on which making charges are much lower than on jewellery.

Experts say these schemes don't make much sense as an investment. "These are not investment schemes. These are more like sales promotion schemes. The idea is to exploit people's basic need to buy jewellery," says Karthik Jhaveri, a Certified Financial Advisor.

Besides, these schemes don't give the option of taking cash instead of jewellery. You have to buy jewellery for the full amount. No cash is paid even if you stop making payments mid-way. Also, jewellers deduct an administration charge in case of premature closure of the account.

Jewellery vs Gold ETFs

Gold prices fell in 2013 but are still around ₹30,000 per 10 gm. So, if you are planning to buy jewellery, it makes sense to opt for such schemes.

"These schemes help investors who are not organised with their finances. This prevents them from making financial mistakes such as taking a loan, etc, for buying jewellery," says Jhaveri.

But those who are disciplined and want to invest in gold to benefit from the expected price rise should go for gold exchange-traded funds, or ETFs, offered by mutual funds, as they are more cost-effective. Gold ETFs also offer more flexibility as one can invest any amount. Besides, one gets direct exposure to gold, without any making charges etc. "If somebody has a long-term view on gold and wants to save for, maybe, a wedding a few years down the line, ETFs are a low cost-alternative. The investor can sell the units at the prevailing gold price and buy jewellery from anywhere," says Suresh Sadagopan, an independent financial planner.

Also, in most gold saving schemes, investors buy gold at prices prevailing at the end of the tenure. They don't benefit if there is a fall in the price during the scheme's tenure. In ETFs, if the price falls, more units are credited to the investor's account, which he can redeem at the prevailing market price. Mutual funds also offer gold funds which invest in gold ETFs. In this, the investor can opt for a systematic investment plan. ♦

Courtesy: Money Today

COMPETING OFFERS

Returns on gold saving schemes versus bank recurring deposits

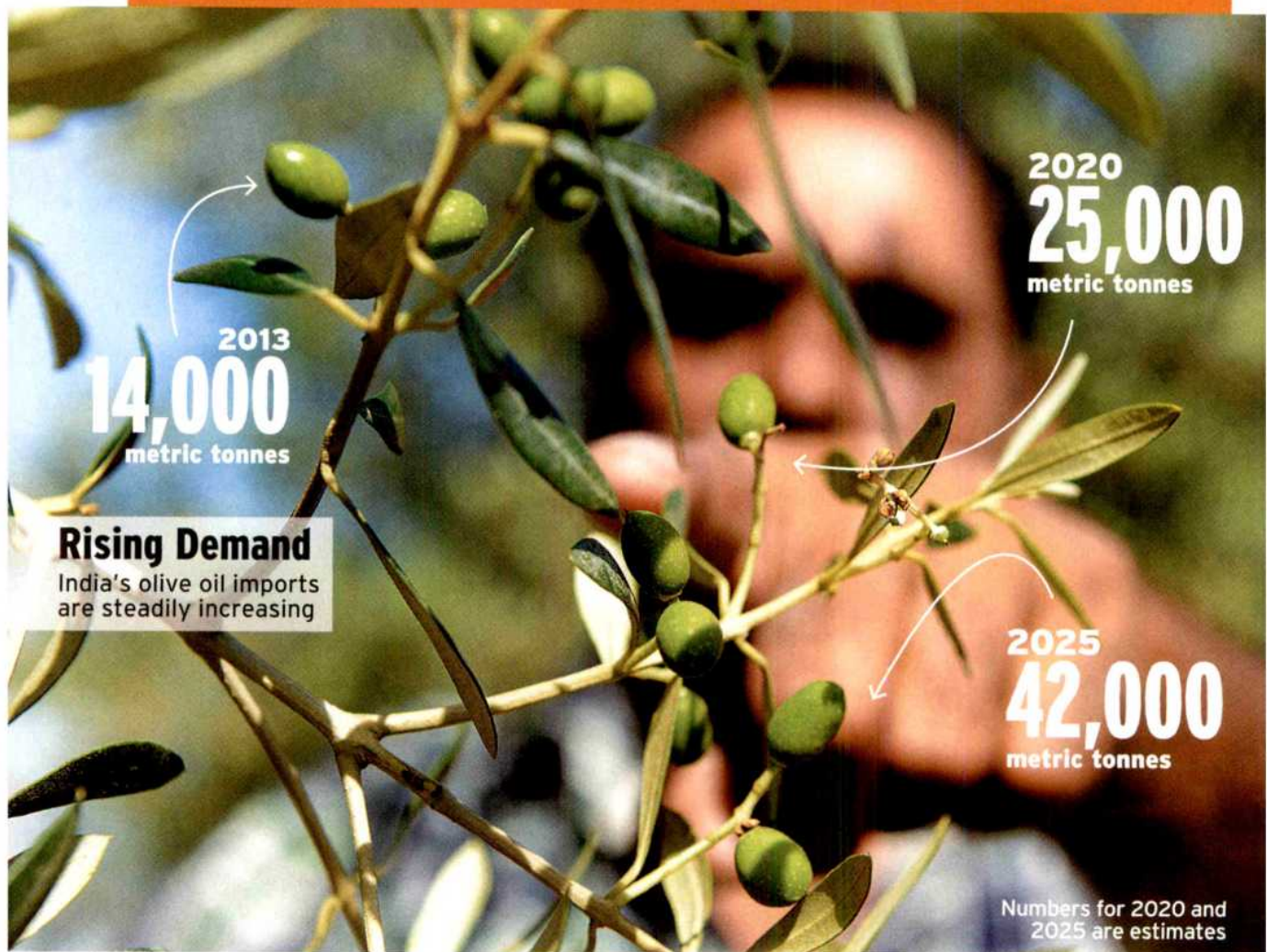
					
NAME OF THE SCHEME	TAMANNA	GOLDEN HARVEST	JEWEL FOR LESS	KALPAVRUKSHA	RD (AT 8.75%)
Investment (₹)	1,000	1,000	1,000	1,000	1,000
Tenure (months)	12	11	12	10	12
Bonus/interest (₹)	1,000	1,000	2,000	1,000	584
Final proceeds (₹)	1,000x12= 12,000+1,000= 13,000	1,000x11= 11,000+1,000= 12,000	1,000x12= 12,000+2,000= 14,000	1,000x10= 10,000+1,000= 11,000	1,000x12= 12,000+584= 12,584

LAST BUT NOT LEAST

BOOKS 125

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PHOTOGRAPHS BY SHEKHAR GHOSH

A Growing Olive Branch

This Mediterranean fruit has begun thriving in Rajasthan

By GOUTAM DAS



Photo gallery of Bakalia olive farm at Nagaur district, Rajasthan, at www.businessstoday.in/olive-farming

India's new tryst in cultivation is with a plant that was first grown in the Mediterranean 8,000 years ago. Its branches were discovered on the tomb of Egyptian Pharaoh King Tut. The Old Testament narrates the story of Noah, who after the flood, sent out a dove that returned with its branch. Victors in the ancient Greek Olympics were crowned with a wreath made of its leaves; the Olympic torch was fuelled by the oil from its fruit.

Until recently, India had little to do with olive cultivation. All the olive oil India needed to use on salads, or to fry, bake and grill, was imported. In 2007, however, the Mediterranean plant finally travelled to Rajasthan. The desert state now has seven large farms with 74,064 plants. And this year, the first made-in-India olive oil could hit the retail shop floor.

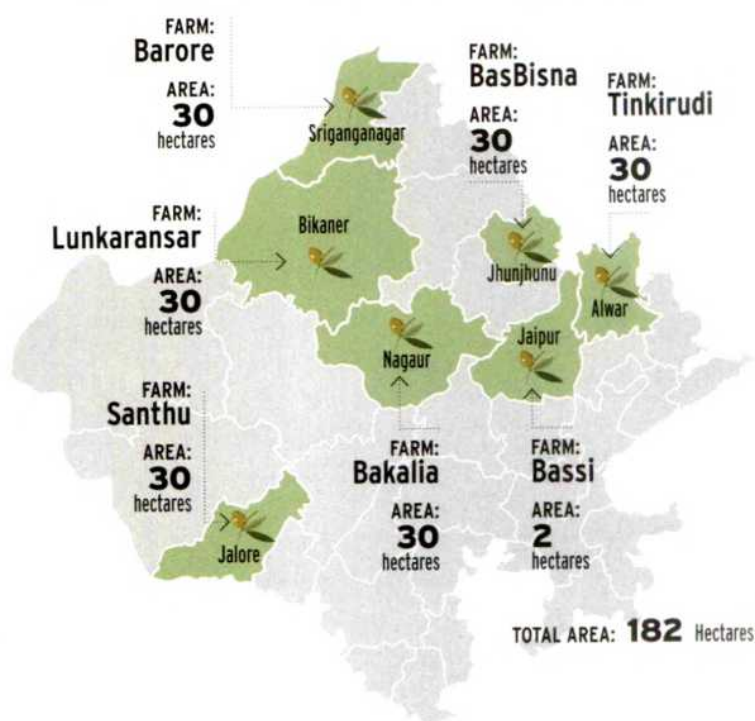
The story is intriguing, not the least because olives are mostly associated with Italy and Spain. How can you grow them in a state with a tropical desert climate? It turns out you can, and the lessons came from Israel.

In 2006, Chief Minister of Rajasthan Vasundhara Raje visited Israel and found olives being grown commercially in its desert. She came back and consulted scientists before deciding on a pilot plantation. The next year, the state government promoted a company in the public-private partnership mode. Rajasthan Olive Cultivation Ltd (ROCL) had the Pune-based horticulture company Finolex Plasson Industries and Indolive Ltd of Israel as partners. About 112,000 plants were imported from Israel and the plantation completed in 2008. Flowering was observed in 2011 – the first indication that olives could be grown in India. By 2012, many of the plants had started bearing fruit as well.

"We sent some samples to Israel and labs elsewhere to find out the oil content in the fruit. It ranges from nine to 14 per cent," says Yogesh Kumar Verma, Manager at ROCL. A state government representative, he has been involved with the cultivation from its first year. The oil content of the olive in other countries varies between 12 and 16 per cent.

Basking in Sunshine

Olive cultivation by Rajasthan Olive Cultivation Ltd, which initiated olive cultivation in India in 2008



"We knew we could make it commercially viable. The government then imported an oil extraction unit from Italy," he adds.

This year, ROCL is expecting about 100 to 150 tonne of fruit – enough to begin commercialisation on a small scale. "The oil is likely to be packaged as 'Raj Olive'. We will do extra virgin and virgin oils only," Verma says.

Both extra virgin and virgin oils are made by mechanical processes and are not chemically treated. The permissible level of free fatty acids is higher in a virgin olive oil compared to the extra virgin variety.

Cultivating the Mediterranean plant in India was, of course, not easy. About four hours drive from Jaipur is Bakalia in Nagaur district of northern Rajasthan. ROCL's farm here has about 13,000 trees, neatly planted in rows on near rocky soil. The trees are pruned to a cup shape – all the branches of the plant need to capitalise on the sunlight. In the middle of the farm is a tiny house from where both irrigation and fertilisation can be automati-

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FOR MANAGING TOMORROW





Fieldwork: Women workers at ROCL's Bakalia farm in Nagaur district

cally controlled. The olive tree does not require much water but when irrigated, the water does need a specified salt content. The plants also require different nutrients at different stages. At one end of the farm is an auto-metrological station that gives out climatic data to be analysed. "Olive plants require chilling to flower and fruit – the temperature should be close to zero, or less than five degrees at night and the next day, the temperature should be less than 16 to 20 degrees," says Verma. If any of these variables go missing, the trees may not flower. In Bakalia, about 1,500 trees disappointed with the plants shedding their leaves.

What does domestic production of olive oil mean for India? The country's olive oil imports are growing at a fast clip – from about 14,000 MT in 2013, imports are projected to shoot up to 42,000 MT by 2025 as more and more Indians choose olive oil for its health benefits. Olives are rich in oleic acid, which can help prevent heart diseases. A deterrent to greater consumption has been its price – an imported one litre bottle of extra virgin can cost between ₹800 and ₹1,000. A domesti-

cally produced one can be cheaper.

"The difference in my estimation would be 20 to 25 per cent – not as large as some people expect because we do not have the economies of scale that Spain and Italy do," says V.N. Dalmia, Chairman of Dalmia Continental, which recently sold its olive oil brand 'Leonardo' to US food major Cargill.

But others are more hopeful. Borges Group of Spain is one of them. Rajneesh Bhasin, Managing Director of Borges India, says he is observing the development in Rajasthan closely. "It is too early to say. But if there is an opportunity, we can launch a locally-produced olive oil. The land used by ROCL is subsidised. So the produce should be cheaper," he says. Besides launching its own brand, ROCL may allow private companies to bottle and market its produce.

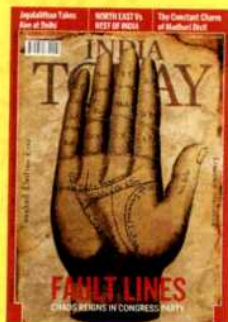
Rajasthan's tryst with olives and its success can now inspire more states to adopt cultivation of this tree, especially on barren terrain. That could have huge implications on the livelihood of people in the region. ♦



74,064

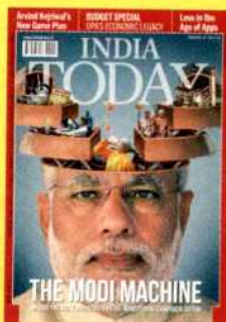
The number of olive plants across seven large olive farms in Rajasthan

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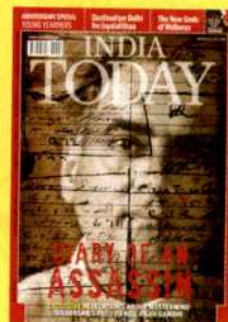
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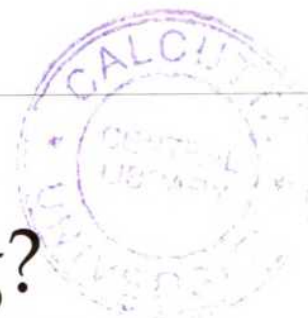


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Is Winning Everything?

Replete with examples, this book outlines the immense costs of extreme competition



A Bigger Prize

By Margaret Heffernan
PublicAffairs

Pages: 416; Price: \$27.99

Citius, Altius, Fortius. The (Latin) Olympic motto for Faster, Higher, Stronger has pushed millions of athletes and sportspersons over the years to sweat it out for the gold, silver and bronze medals at this sports spectacle held every four years. Eventually, only a handful end up donning the national colours and a minuscule among them make it to the podium. We celebrate the winners, but what about those whose dreams remain unfulfilled? What impact does losing have?

In her book, Margaret Heffernan argues that the ills of intense competition are showing up in every sport, as they do in every other walk of life, be it in education, in science labs or in the corporate world. "Doping is the biggest, most visible sign of sport gone wrong. But if winning is all that matters, then the huge costs of elite and professional sports – lost lives, shattered dreams, catastrophic injuries – can seem acceptable. Just like commoditised education: if the product, not the process, is all that matters, then the drugs and the cheating are irrelevant," she says.

"Extreme competition...is fundamentally anti-social. The desire to win rides roughshod over everything else," Heffernan says, adding: "Cheating, corruption, subversion, silence, disenchantment and the unwinding of the social fabric are not perverse but inevitable outcomes of societies captive to the competitive mindset and the ephemeral pleasures of winning. Hyper-competitive people in particular are associated with poor ethics, because, for them, winning is so critical." Heffernan's thought-provoking book is littered with convincing examples from real life on the adverse impact of competition.

Competition is gnawing its way into the corporate world too, creating hierar-

chies, stifling creativity, instilling fear, restricting dissent and compromising ethical standards. "In most organisations, full of smart people recruited and trained at great cost, the biggest problem is surfacing the knowledge that they have," says Heffernan. She adds that "the steeper the hierarchy, the harder it is to be heard, for knowledge to surface and for debate to take place. Instead, convergent thinking prevails, exacerbated by distance, fear and impotence".

So, what is the solution? Heffernan says it lies in collaboration. "Belief in the power of collaboration underlines some of the most successful organisations in the world today," she says, citing global corporate success stories such as TechShop, W.L. Gore & Associates, Morning Star, FirstRand Bank, Eileen Fisher and Nucor. The two words that mark these companies are 'trust' and 'freedom', she says.

For Heffernan, the Apple success was not a one-man show by Steve Jobs as is believed. "When Jobs had outstanding collaborators – Steve Wozniak at Apple, John Lasseter at Pixar, or Jonathan Ive at Apple again – his business thrived. But when he was on his own at NeXT, without the creative conflict those brilliant peers offered him, his venture foundered."

Collaboration, Heffernan feels, can help solve "many of the most pressing issues we face today – climate change, antibiotic-resistant diseases, the immense challenge of feeding a population of eight billion or more". Working together in harmony must surely have its benefits. But competing is basic to human nature, which, many may argue, leads to excellence. The real issue may be how to strike a balance. ♦

SARBAJEET K. SEN

In her book, Margaret Heffernan argues that the ills of intense competition are showing up in every sport, as they do in every other walk of life, i.e., education, corporate world, etc.

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Description: Assist in the preparati brand plan-marketing, quar promotional strategy-input finalizatio input implementation plan.



Karma Associates
Sr. Marketing (ATL, BTL activities)
Location: Nagpur
Job ID: 14946749
Description: Looking for candidates for the position of Sr. Marketing (ATL, BTL activities).



Orcapod Consulting Services Private Limited
Business Development Manager
Location: Pune
Job ID: 15070845
Description: Looking for an exper sales professional from recruitment staffing industry, preferably catering client base.



Datamatics Staffing Services Limited
Area Sales Manager
Location: Ahmedabad, Pune
Job ID: 14994668
Description: Responsible to handle agreed sales projects for A and B customers WW or Mat and Making presentations, offers, contracts, fittings and start up of new customer.



ABC Consultants Private Limited
Online Marketing Manager
Location: Bengaluru / Bangalore
Job ID: 15035042
Description: Create, Manage and Ex online marketing programs, Social M Marketing Programs, Search En Marketing Programs.



HINPA Incorporation
Marketing Manager
Location: Baroda / Vadodara
Job ID: 14284242
Description: Should have knowledge about local suppliers and increase sales directly and through the team.



Angel Broking Limited
Relationship Executive
Location: Bengaluru / Bangalore
Job ID: 15075100
Description: Looking for S Professional with Fresher to 1 y experience in Equity Sales.

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Team Lead, Accounts Payable
Location: Pune
Job ID: 14916645
Description: 8-10 years of relevant experience, Bachelor's degree in accounting.



Integreon Managed Solution India Private Limited
Financial Reporting Associate
Location: Delhi
Job ID: 15070989
Description: Producing standard reports based on the Bristol approved reports catalogue in accordance with the SOPs and financial reporting timetable.



Fidelity Business services
Capital Market Operations
Location: Bengaluru / Bangalore
Job ID: 14927712
Description: Associate must learn and process financial transactions on client database.



Exemplarr Worldwide Limited
Finance Manager
Location: Chennai
Job ID: 15076375
Description: Assisting the Manager in Balance Sheet & P&L Review, Assisting in Variance Analysis.



Vitasta Consulting Private Limited
Assistant Manager - Commercial
Location: Mumbai
Job ID: 15076098
Description: Thorough understanding of commercial operations including relevant taxes, customer purchase orders or contracts.



Capgemini Business Services India Limited
General Ledger(R2R/Fixed Assets)
Location: Bengaluru / Bangalore
Job ID: 15075165
Description: Responsible for preparation of Journals as per Journals Schedule.



UnitedHealth Group
Manager - General Accounting
Location: Hyderabad / Secunderabad
Job ID: 15055016
Description: Collect, summarize and prepare schedule/backup for month close journals.



2COMS Consulting Private Limited
General Ledger Team Lead
Location: Pune
Job ID: 15034054
Description: Looking for candidates with min of 3yrs of relevant exp into end to end General Ledger Accounting.

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Lord Swraj Paul
Chairman, Caparo Group

Coming Home

He does not run his businesses anymore. "But I know what is going on," says **LORD SWRAJ PAUL**, 83, the India-born British MP and Founder and Chairman of the UK-based Caparo Group. He recently visited his birthplace Jalandhar, Punjab, along with son, daughter-in-law and grandchildren. "I told my grandchildren I will show them the schools and college where I studied and the house where I spent my childhood," says Paul, who also inaugurated a new institute at the Punjab Technical University, named after his late daughter Ambika, who passed away at the age of four. "It is good to come back to your hometown even though the visit is brief. I hope I live to come back again."

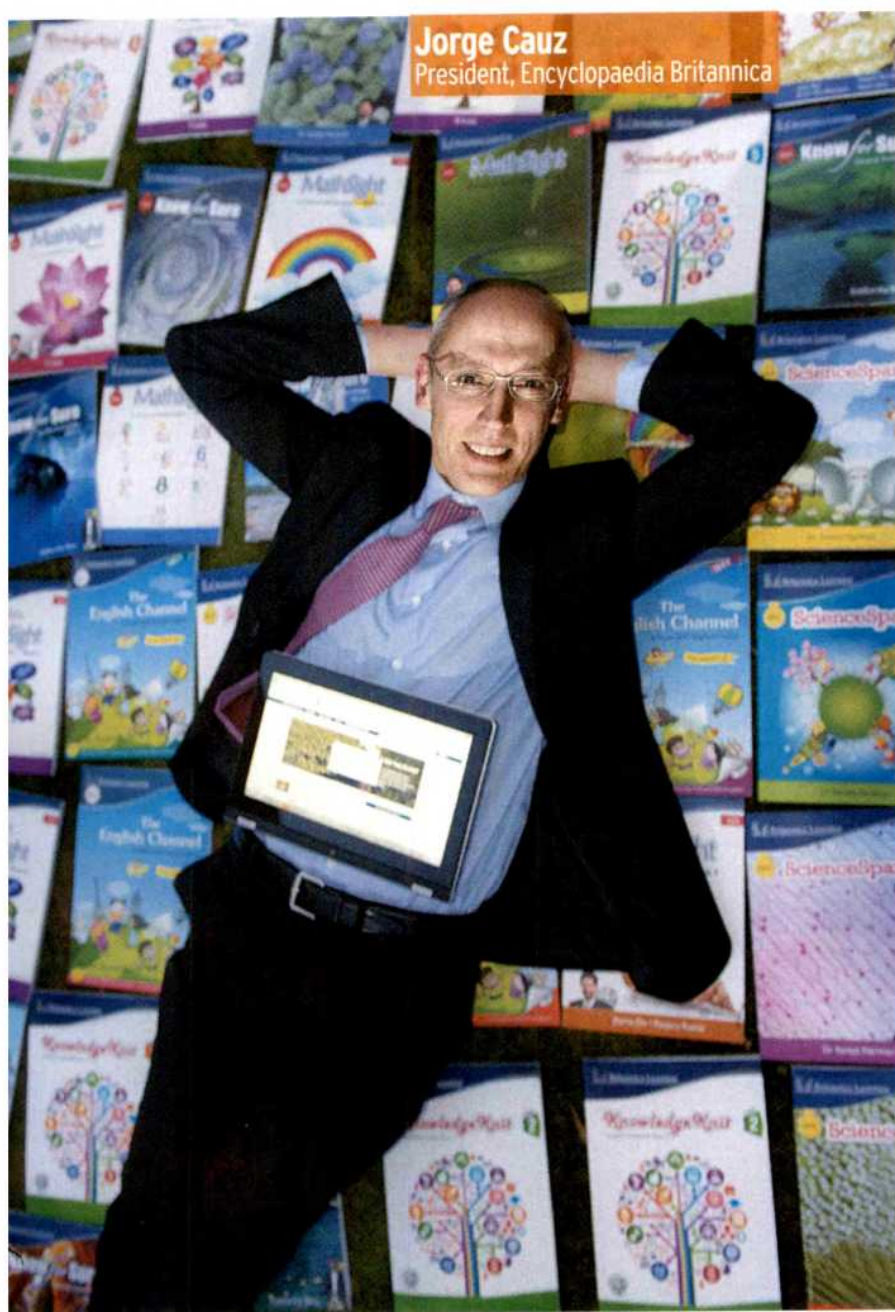
AJAY MODI

SHEKHAR GHOSH/www.indiatodayimages.com





Video of Jorge Cauz on his new online policy at www.businesstoday.in/cauz-britannica



Jorge Cauz
President, Encyclopaedia Britannica

VIVAN MEHRA / www.indiatodayimages.com

Cause it Is

As a consultant at AT Kearney, US clients came to him with complex questions but **JORGE CAUZ** was destined to be the go-to guy for a much bigger audience. He ended up at Encyclopaedia Britannica, the most bookmarked source of knowledge for school-goers to grandparents in a pre-Internet era. Cauz, President of the company, will be remembered as the person who in 2012 ordered the shutting down of the 32-volume print edition of Encyclopaedias. But, he had prepared the company for the inevitable transition. "For a few years [before closing the print edition], we had flat growth," Cauz, visiting New Delhi, says, which meant print revenues were falling but were being compensated by rising digital revenues. "I was happy we had flat growth," he grins. Next, he intends getting back Encyclopaedia Britannica to prime in a world that is more familiar with Wikipedia. That's a nice cause – and opportunity – for a brand a quarter-of-a-millennium old.

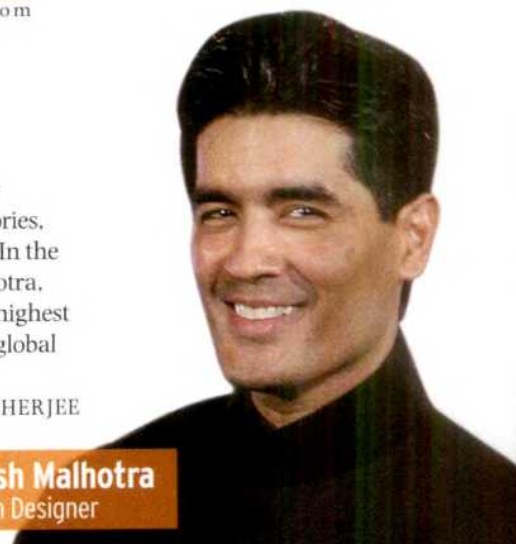
JOSEY PULIYENTHURUTHEL

Style for the Masses

He has achieved enormous success as a Bollywood costume designer. And now **MANISH MALHOTRA**, 48, is focusing on his diffusion line of clothes and accessories, meant for those who want to look stylish without spending too much money. "In the last three years people are looking beyond movies and at our work," says Malhotra, who clocked in an annual turnover of ₹108 crore in 2013/14. "It is one of the highest turnovers of an independent designer," he adds. Malhotra is also targeting the global market now, what with the recent launch of his ecommerce website.

ARPITA MUKHERJEE

Manish Malhotra
Fashion Designer



Subrata Datta
CEO, Fabindia

Look West Policy

SUBRATA DATTA's wants to make Fabindia the country's leading lifestyle departmental store brand. "We don't want to be just known as a niche kurta company. In fact, we recently did a survey, which showed that a lot of our consumers look at us as a departmental store brand and not as a niche ethnic wear brand," he says. He sees no reason why a Fabindia shirt can't be as much of a style statement as a kurta. The ₹1,000 crore company's recent launch Fabel, its western wear brand, is a move towards making the company as well known for western wear as it is for its ethnic wear. Datta also plans to set up exclusive Fabel stores later this year. "We are extremely proud of our image as a kurta company, but one needs to diversify in order to grow," he adds.

AJITA SHASHIDHAR

SHEKHAR GHOSH/www.indiatodayimages.com

NILOTPAL BARUAH

Entrepreneurial Run

VISHAL BALI, 45, embarked on his entrepreneurial journey on April 23, just about 200 days after he left Fortis Healthcare as Group CEO. Along with friend Ferzaan Engineer, former CEO of Quintiles Transnational in India, Bali launched Medwell Ventures, a pan-India health care delivery platform. Bali has also joined leading global private equity fund TPG Growth as its Asia head for health care. "The Medwell venture is driven by the need to follow my entrepreneurial passion for health-care delivery and joining TPG Growth is driven by a need to look at career continuity in a larger geography of Asia in this space," says Bali, a long distance runner, who has participated in the Bangalore Marathon every year. Professionally too, he seems to like marathons stints, given that this is his first career switch after 24 years. It was in 1990 that he joined Wockhardt hospital as a management trainee. Bali became a Fortis employee after the hospitals he was involved with were acquired by Fortis four years ago.

E. KUMAR SHARMA

Vishal Bali
Co-founder, Medwell Ventures



Why Bali took to running marathons - video at www.businesstoday.in/bali-medwell



Video interview of Subrata Datta at
www.businesstoday.in/datta-fabindia

New Codes

SUDHAKAR RAM, head of Mumbai-based Mastek, one of India's oldest software companies, is now also a regular blogger (<http://www.thenewconstructs.com/>) and author. In his new book *The Connected Age*, Ram argues that India can take the lead in a new way of working, creating businesses and running them. The thought stems from the fact that every *panwalla* and cigarette-seller is a businessman. Ram says this entrepreneurial instinct can be used to create new models of working within organisations, especially small software companies which do not have strong legacy issues. He is currently implementing a structure in Mastek, where the junior ranks, the people who actually write code, feel empowered.

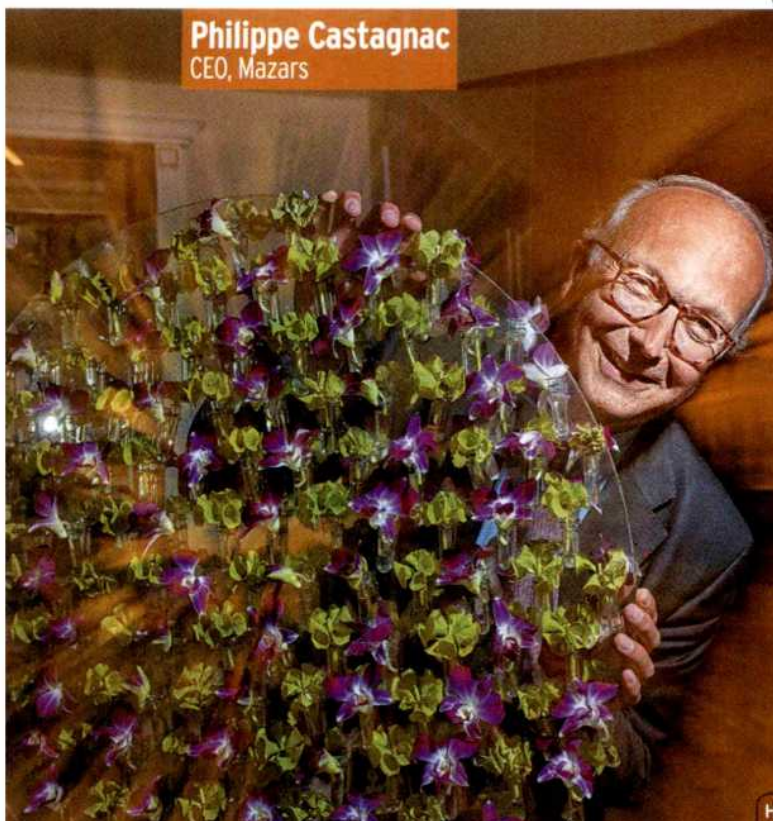
SUPROTIP GHOSH



Sudhakar Ram
 MD & Group CEO, Mastek
 RACHIT GOSWAMI

VIVAN MEHRA/www.indiatodayimages.com

Philippe Castagnac
 CEO, Mazars



Opportunity in Chaos

With the introduction of the new Companies Act, auditing in India is expected to undergo tremendous change. **PHILIPPE CASTAGNAC** of global auditing and advisory firm Mazars sees an opportunity in the chaos. "Our profession is going through changes with auditor rotation coming in. We see that as a big opportunity to grow," says Castagnac, an avid golfer, who started his career as a junior auditor 36 years ago. Mazars, which is present in 72 countries, has grown about four times in India in the past seven years. "Since last year, we have introduced two new innovative practices in India – human rights auditing and corporate social responsibility auditing," he adds.

MANU KAUSHIK



How the rotating auditor rule will hit companies at



VISHESH CHANDIOK

National Managing Partner,
 Grant Thornton India LLP

My first role model
 David McDonnell, former
 CEO of Grant Thornton
 International, who taught
 me the meaning of
 leadership – getting others
 to do things they would not
 otherwise do

My first job
 As an audit trainee with
 Grant Thornton UK, based
 out of London, where I
 made mistakes and learnt
 from them. I also learnt the

values of discipline,
 confidentiality and
 commitment

My first boss
 Anuj Chande, who leads the
 Indo-UK desk and is also
 head of South Asia Group
 at Grant Thornton UK.
 From him I learnt the art of
 networking and how to
 become a trusted adviser
 to entrepreneurs as well as
 their families

My first promotion
 When I qualified as a
 chartered accountant in
 the UK, I moved to our

consulting department
 where I became a senior
 consultant. I then had the
 good fortune of directly
 working with David
 Andrews, the best known
 strategic consultant to law
 firms globally

My first disappointment
 On my first day at work,
 someone asked me how
 long I had been in the UK. I
 said one year and the
 person responded: "You
 have picked up English
 rather quickly"

Photo by Shekhar Ghosh
 As told to Manu Kaushik



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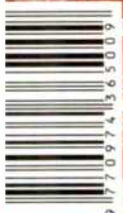
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ITS WAY PAST THE UPA'S LEGACY** p40

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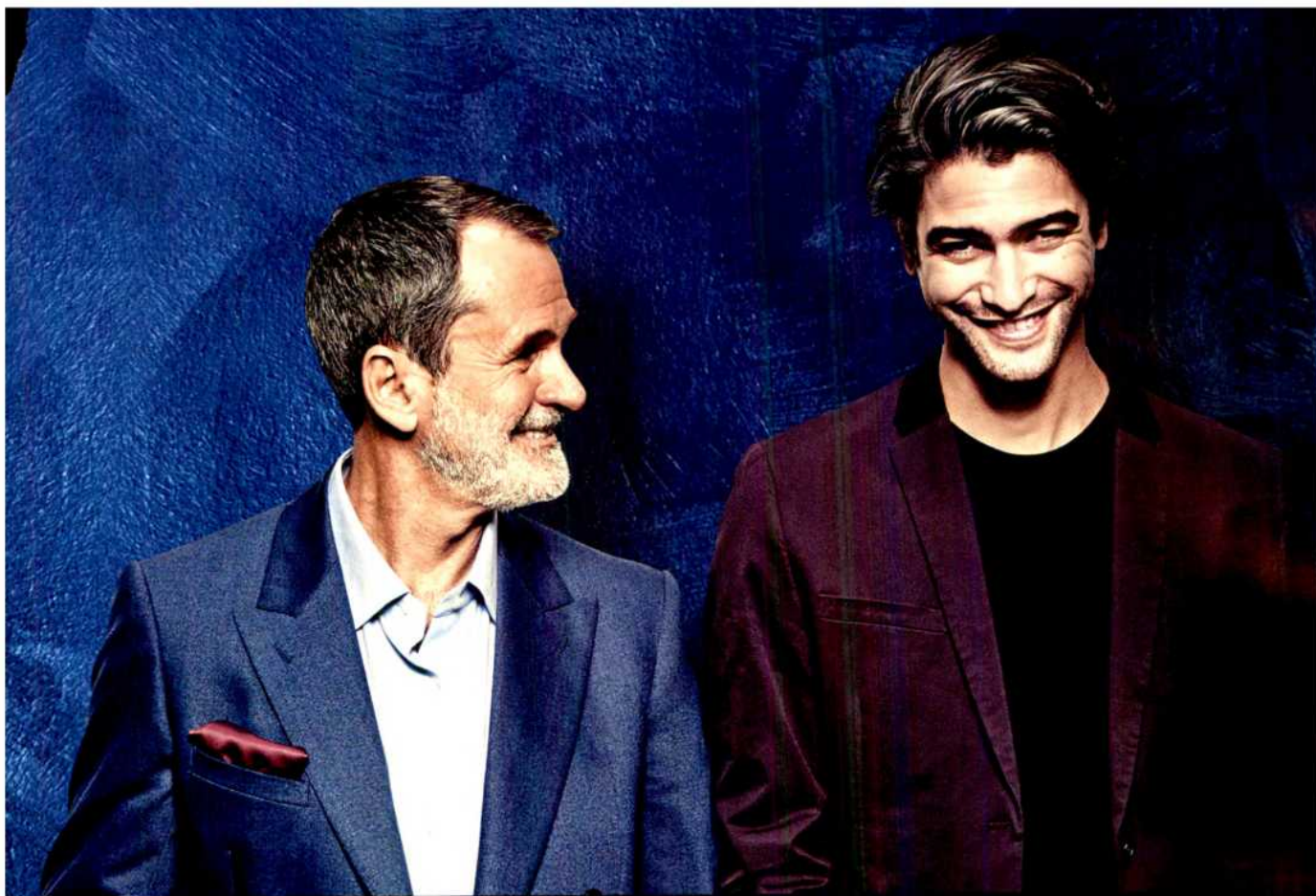
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A Samsung Galaxy S5 smartphone is shown at an angle, displaying a vibrant image of a young child with curly hair, wearing an orange t-shirt with the number 13 and blue shorts, jumping joyfully on a city street. The phone's screen is framed by a black bezel with the 'SAMSUNG' logo at the top. The back of the phone, visible on the right, is a metallic gold color with a fine, grid-like texture. It features a camera lens, a flash, and the 'SAMSUNG' logo. The phone is set against a background of a textured, golden-brown surface.

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SIMPLY CLEVER

A detailed illustration of a busy Indian street scene. In the foreground, a red fire hydrant with the number '512' stands on a paved road. To the right, the front corner of a dark-colored ŠKODA Superb is visible. The background is a vibrant, cartoonish depiction of a bustling street. It features a large grey elephant with a red and orange patterned cloth draped over its back, being led by a person. A rickshaw pulled by a person is also visible. The street is filled with various vehicles including a white bus, a yellow taxi, a white truck, a small white car, a motorcycle, and a bicycle. People are walking and riding along the street. The scene is set against a backdrop of a city skyline with tall buildings under a clear sky.

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Infosys Needs a Modi

We need a Modi." This is how an Infosys executive climbing the company's middle ranks summed up the leadership vacuum at the onefeted software services firm. Bangalore's most famous employer is struggling with exits at the top level as Co-founder and Chairman N.R. Narayana Murthy tries to pull the company out of the hole it is in. With the latest departure of a top internal contender for the CEO position, which falls vacant before or by January 9, 2015, Infosys could be ready for an external CEO hire – an option that Murthy would have shrugged off some time ago as not part of the company's DNA. The landscape has changed dramatically over just six years, however. Rivals such as Tata Consultancy Services and Cognizant have grabbed bigger shares of the offshored tech services market than Infosys. Like N. Chandrasekaran and Francisco D'Souza, Infosys, too, needs an energetic and smart leader. When he took the TCS CEO role, Chandra, as his colleagues call him, was 20 years younger than predecessor S. Ramadorai. At 16 years, the age gap between D'Souza and Lakshmi Narayanan was less but not small. Both Ramadorai and Narayanan were capable leaders and delivered growth in their respective companies. Still, it is almost as if their young successors got jet packs strapped on to

the companies after taking over. Insiders talk about the change in energy levels at the top, quick decisions, expanded bandwidth, and an openness to experiment. (Don't forget they don't run small outfits; TCS's revenues are about the same as Assam's state domestic product.) Infosys could use some of that mojo. Murthy and the Infosys board will make as best a choice for the next CEO as possible. But one thing is essential to increase the odds of that selection working: Murthy should completely exit the company this time. I know how gut-wrenching it will be for Murthy – he's often called Infosys his middle child (he has a daughter and a son) – to do that. Even so, except for a brief transition period, he should cut all ties with the company, including giving up his Chairman Emeritus office in the heritage building on the beautiful Infosys Bangalore campus, once a new CEO checks in. He is too big a persona for Infosys not to get distracted by. To be sure, Murthy's exit will only be a necessary and not sufficient condition for Infosys's comeback.

In 22 years of *Business Today's* existence (13 of them as the market leader by readership), it is for the first time that we are putting the same person on our cover in consecutive issues. Narendra Modi represents a new leadership settling in fine at New Delhi, early hiccups notwithstanding. Like any other new leader, he's hungry to prove himself and has hit the asphalt running. He's in office unusually early (throwing out of gear processes in New Delhi's power corridors), is setting clear expectations of his team (he told his Cabinet colleagues to come up with achievable 100-day targets, the output of which would be measured), is clear he will do what it takes to get his team going (changing the rules to get a principal secretary of his choice), and is not stepping back from initiative (inviting Pakistan PM Nawaz Sharif for the swearing-in) or imagination (merging ministries in one form or another). He intends going for the jugular, clearly. How he takes 1.2 billion Indians along on decisions that may seem right only to the Hindu right will decide how good he makes his statesman ambitions. That, in turn, is a function of how coachable he is, as I argued in my last letter. Sixty-three is not young but that makes Modi 18 years younger than predecessor Manmohan Singh. For a nation whose citizens are clustered around a median age of 27, the new Indian Prime Minister looks like he means business. To deliver on that promise, Modi has first several legislative cobwebs to remove. A team of *Business Today* writers shines the light on the tough task ahead (starting page 40). All the best, Mr PM.



Josey Puliyenthurathel
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**Vol. 23, No. 12, for the fortnight June 9-22, 2014.
Released on June 9, 2014.**

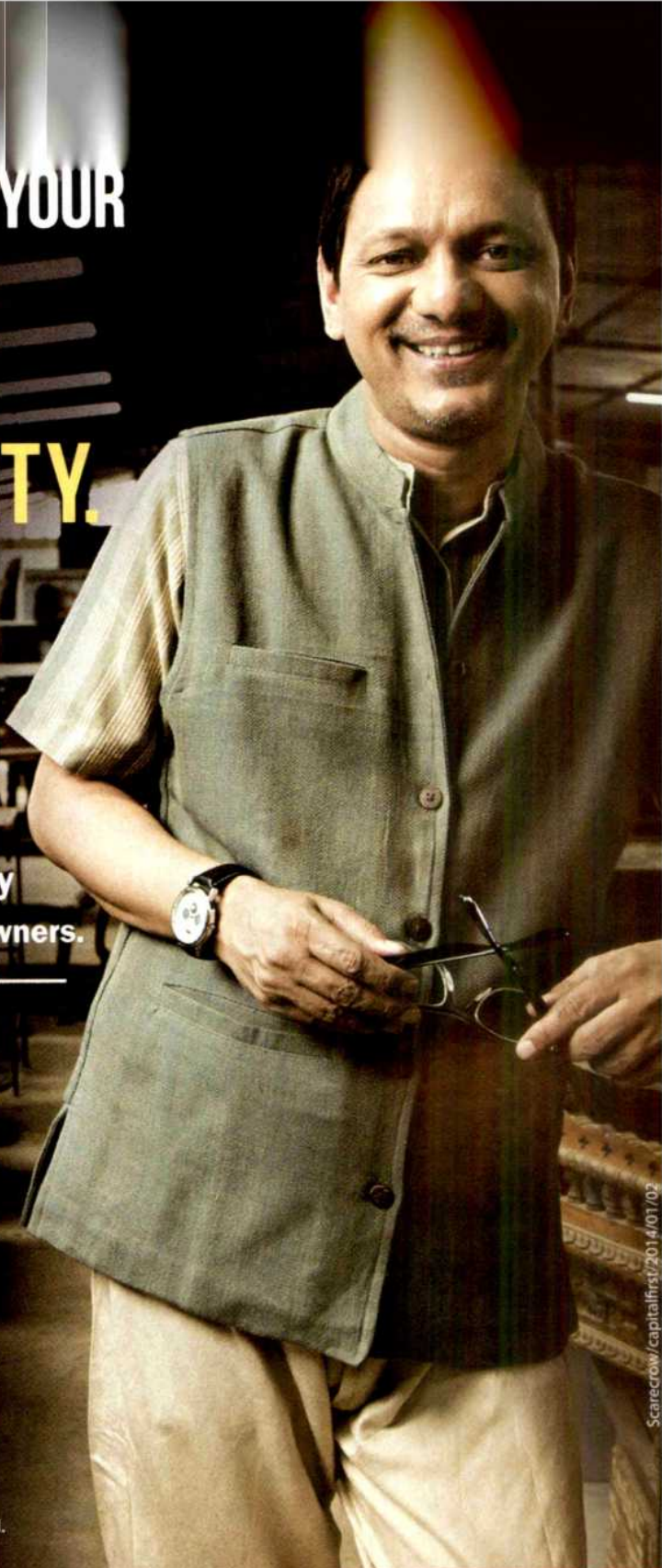
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S M E L O A N S



Winning the Cup

Having won the "Gujarat Cup" three times in succession – a hat-trick scored purely on the plank of development, BJP captain Narendra Modi has now deftly managed to win the prestigious "India Cup" in style by a thumping margin that has completely decimated the Congress (*Modi India-fied*, June 8). Earlier, many felt that

only Indian cricket captain Mahendra Singh Dhoni could create and repeat a miracle. But now this mindset has changed: there are others too, who can make history. But the ball is now in the BJP's court. The party, under the pressure of expectations, will have to perform exceptionally well to justify the faith of the electorate.

Srinivasan Umashankar, Nagpur

Tough Job

Since Narendra Modi is now fully accountable to the citizens of India (*Modi India-fied*, June 8), his party, the BJP, must present a periodic report, say monthly or quarterly or half-yearly on the promises it had made and the action taken on them. This should be put together under the guidance of a responsible person. This report must be made public. This way there will be a check not only on the BJP, but also on all of its machinery. A mechanism must be evolved to deal with the grassroots-level problems of common citizens.

Hope the Modi government is ready to tackle this tough job.

Mahesh Kapasi, New Delhi

MF Future Bleak

The package on Indian mutual fund market (June 8) was quite analytical. The stories featured point out very well how survival in the fund market has got tougher and how the functioning of funds is becoming more process-driven. Even though the future of the funds' market looks bleak, it is not impossible to figure out what the problems are and fix them.

Abhinav P., New Delhi

Stability Overrated

The UPA provided a stable government. But its performance proved that the oft-uttered view "A stable government will rid India of its economic woes" (May 25) was wrong. We need a stable government but it should also have vision and provide good governance.

Jacob Sahayam, Thiruvananthapuram

Send all your comments to: editor.bt@intoday.com

www.facebook.com/BusinessToday



Arun Jaitley seeks meeting with state FMs for GST push. Definitely, it is a good step for all businessmen.

– **Ashok Arora**

Jet Airways reports record \$366.5 million quarterly loss.

Jet Airways has never made any profit. But it is quite interesting to know how its share prices sometimes move upward. – **Rajat Chowdhry**

SEBI clears Diageo's open offer worth ₹1,448.91 crore for USL.

It's unfortunate for Vijay Mallya. For the collapse of his empire, the credit mostly goes to his son and the inefficient advisers. He may bounce back soon, because he believes in: "You need to be gutsy; you need to have fire in your belly."

– **Nivas Bharathi**

Mumbai pizza delivery drone crashes into security hurdle.

In Saudi Arabia, it's successful. They use camels to deliver on time in the desert.

– **S.K. Singh**

HOW TO CONTACT



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Customer Care, India Today Group, A-61, Sector-57, Noida (U.P.) – 201 301

Phone: (0120) 2479900 from Delhi & Faridabad; (0120) 2479900 (Monday-Friday; 10 am-6 pm)

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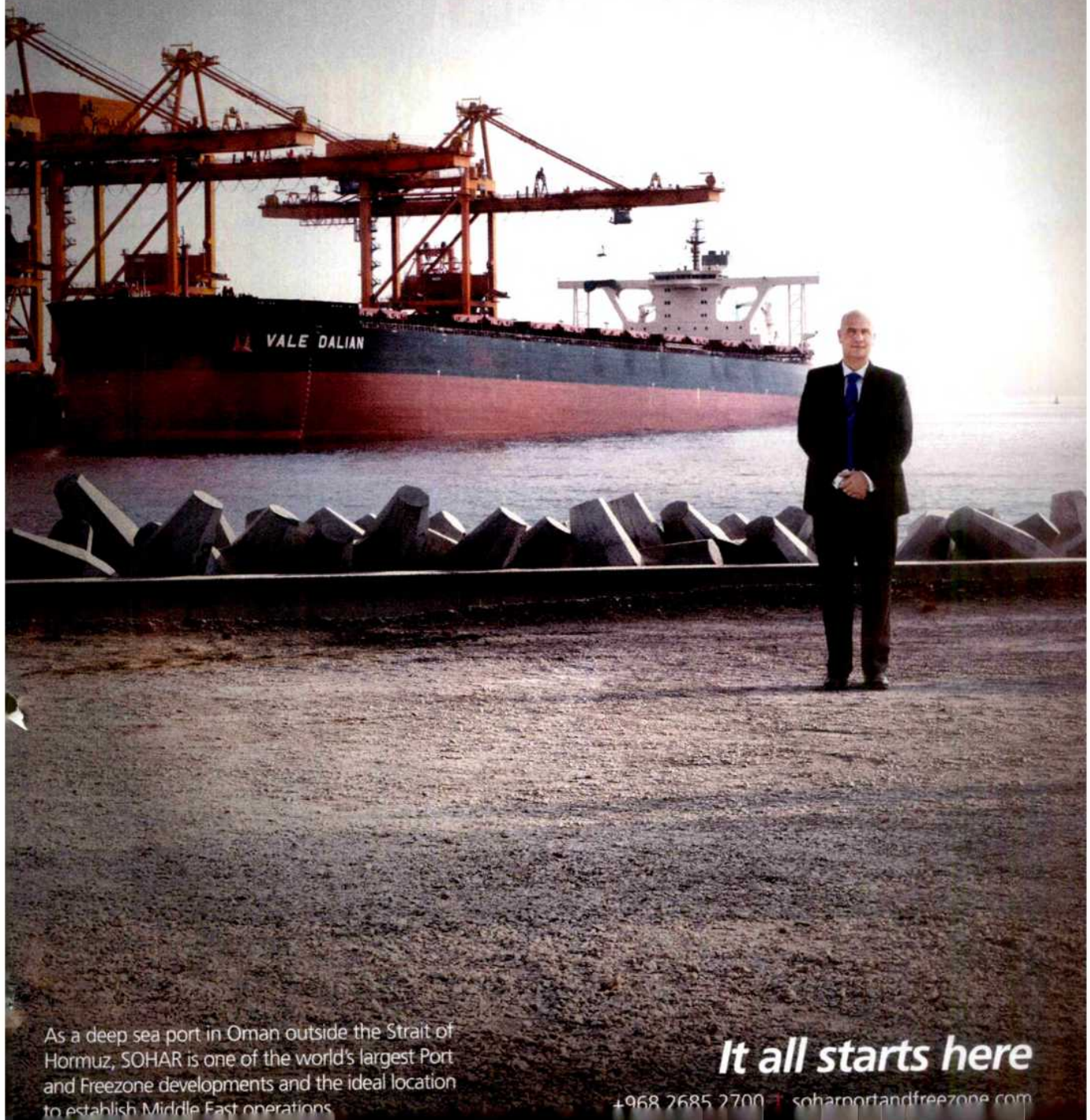
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CONTENTS

COVER BY SAFIA ZAHID
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JUNE/22/2014
VOLUME 23/NUMBER 12

40

COVER STORY

A NEW FREEDOM STRUGGLE

The formidable challenges the new government
faces in reviving the economy



42 NO PROMISED
LAND

52 LIGHTEN
THE LOAD

54 OVERDOING
THE VIGILANCE

56 STIFLING
ACTS

64 WHAT LIES
IN STORE

66 SUMMER OF
DISCONTENT



On Their Own Feet

Why some entrepreneurs delay or even turn down VC funding for their start-ups

100

UPFRONT

18 | Quick takes on major events



FOCUS

22 | Brimming with Hope
Corporate leaders expect the India growth story to make a strong comeback under the new BJP-led government, finds the latest BT-C fore survey

26 | Health Draws Wealth
Why health care has become a preferred sector for PE firms



32 | Graphiti:
Taxing the System

32



FEATURE

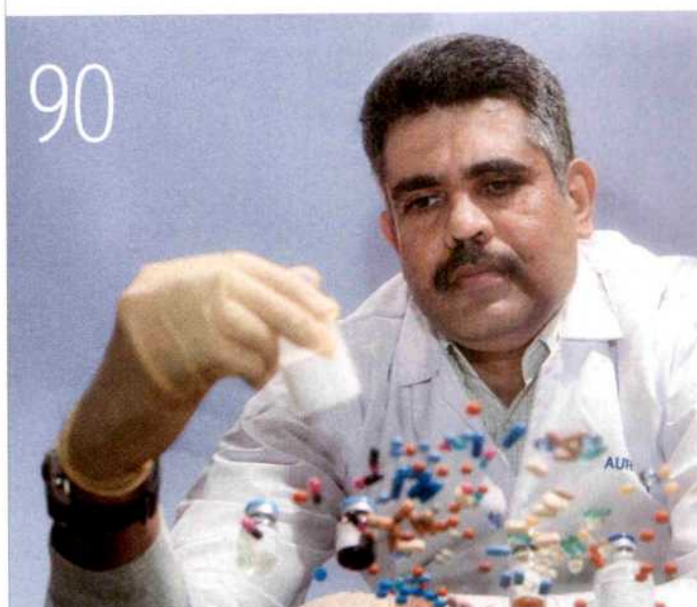
B-SCHOOL DEBATE

38 | Growth, Not Inflation, Should Be Modi's Priority

85 | Back Office at the Forefront

Capgemini took a little time in adopting India as its global hub for offshoring but is now going full throttle

90



90 | Writing a New Prescription

Aurobindo Pharma shifted its focus from basic ingredients to finished drugs over the past few years. It is now moving further up the value chain to boost profitability

96 | Going Up in the World

Textile exports did well last year, growing by more than 15 per cent

106 | It All Ads Up

SilverPush's technology lets advertisers reach the consumer on multiple devices. It could disrupt digital advertising, but will face stiff competition from global pioneers

HBR EXCLUSIVE

112 | How Netflix Reinvented HR

Trust people, not policies. Reward candour. And throw away the standard playbook



CONTENTS



120

MONEY

120 | Taming the Tenant

Vital points to keep in mind while giving out a house on rent

LBNL



124 | Romancing the Senses

There has been an explosion of new fragrances and flavours triggered by growing consumer demand

124

128 | An Adhesive That Performs in the Heart's Lub-dub

BOOKEND

130 | Sleeping with the Frenemy

A meticulously detailed account of the uneasy Sino-Indian relationship

136 | PEOPLEBUSINESS

LEADERSPEAK

140 | Kazutada Kobayashi

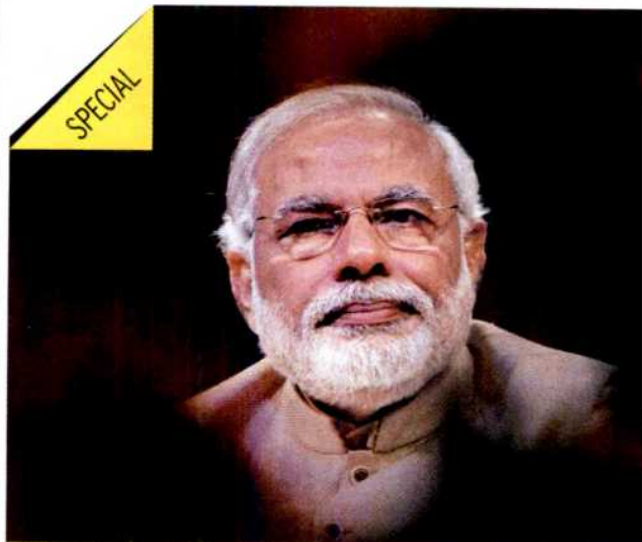
President & CEO, Canon India

140



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SPECIAL



Begin Afresh

A new government has been sworn in. A look at some of its pressing challenges.

businesstoday.in/newgovt-challenges

What industry wants from the new government.

businesstoday.in/newgovt-industry

If I were PM: B-school students speak out.

businesstoday.in/newgovt-students

Dinesh Narayanan provides pointers to what to expect from Narendra Modi.

businesstoday.in/newgovt-narayanan

NEWS



Flipkart's Sachin (left) and Binny Bansal

Embrace of Titans

How the merger between e-tailing giants Flipkart and Myntra happened.

businesstoday.in/flipkart-myntra

Pledging Gold

Why Reliance Retail is pledging jewellery stocks.

businesstoday.in/reliance-gold



An IMPACT Feature

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PERSPECTIVES

No More Comfort Factor

Anand Adhikari on what the relationship between RBI Governor Raghuram Rajan and the new government will be like.
businessstoday.in/newgovt-rajan

Short-sighted Provision

The clause in the new Companies Act requiring companies to change their auditors every few years may have unintended adverse side effects, says Manu Kaushik.
businessstoday.in/companiesact-auditors



COLUMNS



Winning Through Diversity and Inclusion

Santhosh Babu regrets the way many professionals conceal their true selves at the workplace and urges companies to encourage diversity.
businessstoday.in/buddhaintheboardroom



The Liberal Start-up Experience

Jairaj Bhattacharya shows how his grounding in the liberal arts helped him as an entrepreneur.
businessstoday.in/arts-bhattacharya



Setting the Expectations

Abhishek Agrawal explains how MDRA conducts its annual ranking of B-schools for *Business Today*.
businessstoday.in/bschool-agrawal

DEEP DIVE

Rewarding Shareholders

Raj Ramachandran points out the significance of a recent notification by the Reserve Bank of India allowing issue of non-convertible debentures or preference shares by way of bonus.
businessstoday.in/shareholders-ramachandran

BLOG

Start-up Today

Taslima Khan on Crayon Data, the Chennai- and Singapore-based start-up, which was declared winner at the TieCon 2014 contest in Santa Clara, US.
businessstoday.in/startup-today



GADGET REVIEWS

businessstoday.in/gadget-reviews



LG G3

The new flagship smartphone from LG is yet to reach India.

Plantronics Voyager Edge

A smart headset, though its design is a bit outdated.

Samsung Gear 2

The company's new smartwatch is better than its predecessor but the price of ₹22,900 still isn't justified.



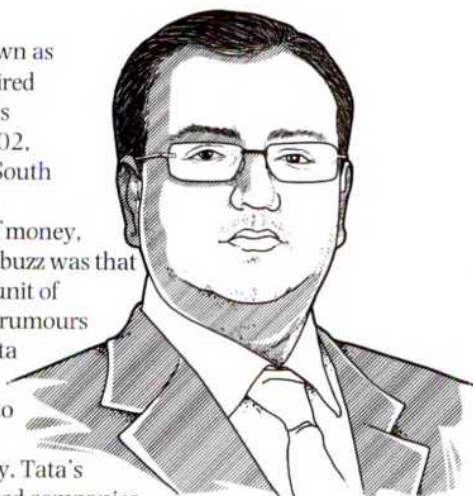
THE TWEET THAT WASN'T

@Mittu Chandilya exciting plans for airasia Indian. Whatever Indigo tries to do to stop us it just makes us stronger and smarter. Well done"

With this tweet, one thought, AirAsia head **Tony Fernandes** was going to usher plainspeak into Indian corporate circles. But, says *The Economic Times*, the post was later taken off.

DEAL DALLYING

Tata Communications, known as VSNL until Tata Group acquired it as part of the government's disinvestment process in 2002, sold its 67 per cent stake in South African company Neotel for \$680 million. That is a lot of money, but what created the louder buzz was that the buyer happened to be a unit of Vodafone. Immediately, the rumours that the **Cyrus Mistry**-led Tata Group is looking to sell its telecom operations in India to Vodafone found a few more believers. But it won't be easy. Tata's telecom portfolio has two listed companies. In one of those – Tata Communications – the government still owns 26 per cent.



THE SNUB CONTINUES

The Supreme Court, on May 22, declined **N. Srinivasan's** plea to be reinstated as BCCI president for non-IPL affairs.



Srinivasan had sought urgency in the case since, by the time the court heard the case next, which would be September, his term as BCCI president would be over.

BUZZ



Malala is shot in the head, tumbles, bounces back to win the **peace Nobel**. Booted out, **Steve Jobs** bounces back to become a corporate icon. Mahatma Gandhi is thrown out of a train, but bounces back to become Father of the Nation. Each bounces off a mattress, a Kurl-On mattress, as depicted in advertisements made by Ogilvy & Mather. "Crass," said some. "Offensive," cried others. The question is, is this the latest outbreak of scam ads? The last big one was the Ford Figo series made by JWT India, which went on to claim three heads in the agency, including that of creative head Bobby Pawar.



30 MINUTES OF FAME



Step aside Vinod Mehta. Another Lucknow boy – **Qaiser Ali**, aged 19, can claim that title with more credence – shot to fame by becoming the owner of the Twitter handle @PMOIndia on May 20. Alas, his pride and joy lasted all of half an hour, before it was claimed back. But you may not have heard the last of Ali. He runs his own social network with 15,000 users and plans to launch a dating app. Bigger things have started smaller.

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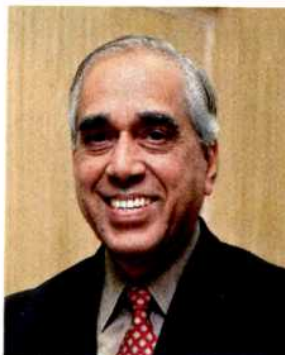
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News Digest



Prime Minister Narendra Modi's Principal Secretary, Nripendra Mishra, hogged the limelight when the new government resorted to its first ordinance, skirting a Telecom Regulatory Authority of India clause, to bring him into office. Like his master, Mishra is a hard taskmaster.

The economy grew 4.7 per cent in 2013/14, marking a second straight year of sub-5 per cent growth — the worst slowdown in more than a quarter of a century. The data was below an official estimate of 4.9 per cent annual growth and compared with 4.5 per cent in the last fiscal year.

However, in a breather to the new government, the current account deficit narrowed sharply to \$32.4 billion, or 1.7 per cent of gross domestic product, in 2013/14 from a record high of \$87.8 billion, or 4.7 per cent, the year before. A sharp fall in gold imports due to restrictions on overseas purchases and muted imports of capital goods helped shrink the current account deficit.

Online retailer Flipkart has acquired fashion portal Myntra, as it prepares to battle with the rapidly expanding India arm of the global e-commerce giant Amazon. And Flipkart, led by CEO Sachin Bansal, may not be done yet. The company raised \$210 million from Russian investment firm DST Global, which has also invested in companies like Facebook, Twitter and Alibaba Group.

The new government will restructure the United Progressive Alliance's flagship programme Mahatma Gandhi National Rural Employment Guarantee Act by linking employment with development in rural areas and rigorously implementing the new land acquisition law, according to Minister for Rural Development Gopinath Munde.

General Motors will start exporting vehicles from its Talegaon plant near Pune in the second half of 2014. GM was one of the few global carmakers that was using its India plant only for the domestic market. GM India sales dropped eight per cent to 80,890 units in 2013/14 from 88,150 units the previous year.

Google has overtaken Apple as the world's top brand in terms of value, according to global market research agency Millward Brown. Google's brand value shot up 40 per cent in a year to \$158.84 billion. The top 10 of the 100 slots were dominated by US companies.

Infosys lost another heavy-weight when B.G. Srinivas, a board member, put in his papers. He is the third CEO-hopeful to quit after Chairman N.R. Narayana Murthy's return to the company — Ashok Vemuri and V. Balakrishnan being the other two. While Vemuri went on to lead iGate, Balakrishnan joined politics.

Naresh Goyal-promoted Jet Airways posted its biggest quarterly loss — ₹2,153.57 crore — in the three months ended March 31, mainly because it has been offering discounts to passengers to fill planes. The airline also reported a seventh straight annual loss in 2013/14 as fuel prices and airport costs remained high. Meanwhile, the Jet board named Cramer Ball as the CEO. Ball was earlier CEO of Air Seychelles, where he led a major restructuring programme that returned the airline to profitability in 2012 and 2013.

William S. Pinckney, Chairman and CEO of Amway India, was arrested by the Andhra Pradesh Police in connection with a complaint against the direct-selling firm. This is the second time that he has been taken into custody. A year ago, the Kerala Police had arrested Pinckney and two company directors on charges of financial irregularities.

China has told its state-owned enterprises to sever links with American consulting firms after the United States charged five Chinese military officers with hacking US companies. China's action, which targets consultancies like McKinsey & Co. and The Boston Consulting Group, stems from fears that the firms are providing trade secrets to the US government.

What would have been the world's largest ever drugs merger fell off the deal table. Pfizer has abandoned its attempt to buy AstraZeneca for nearly \$118 billion after the latter refused an offer of 55 pounds a share.

The median pay package for a CEO rose above eight figures for the first time, but there is a catch — Berkshire Hathaway's Warren Buffett and Facebook's Mark Zuckerberg reported a slide in their salaries in 2013. Buffett's pay was \$485,606, down 77 per cent. Zuckerberg's salary was \$653,165, down 67 per cent. The vast majority of their wealth comes from their ownership stakes, not their salaries as CEOs.

India has emerged as a country with some of the highest number of unregistered businesses in the world. Indonesia has the maximum number of shadow businesses, says a study of 68 countries by Imperial College Business School in London.

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FOCUS

26 PEs in Health Care
32 Taxing the System
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Smiles are back: RIL Chairman Mukesh Ambani (left) with Adani Group Chairman Gautam Adani at the swearing-in ceremony of the BJP-led government

PTI

Brimming with Hope

Corporate leaders expect the India growth story to make a strong comeback under the new BJP-led government, finds the latest *Business Today-C fore Business Confidence Survey*. By MANU KAUSHIK

1.7%
India's current
account deficit in
2013/14, down from
4.7% in 2012/13

A sudden change in the buying habits of people shopping at Big Bazaar stores might be a tell-tale sign of the country's improving economic situation. In the past one week, according to Future Group CEO Kishore Biyani, more people are picking up high-value items such as furniture, kitchen goods

and electronics. What does it mean? "Consumers are more confident about the future than before. The consumer sentiment has improved after a long period of slump," says Biyani.

Not just the retail sector, optimism is evident across corporate India, indicates the *Business Today-C fore Business Confidence*

Survey. Taking a break from the quarterly cycle, *Business Today* decided to gauge the mood of corporate leaders soon after the Bharatiya Janata Party-led National Democratic Alliance got a thumping majority in the just-concluded elections for the Lok Sabha. The survey results suggest a high level of optimism among business leaders. Market research agency *C fore* quizzed 185 CEOs and chief financial officers across 12 cities for the survey. (See *Methodology*).

A majority of respondents – 85 per cent – expect economic prospects facing their businesses to improve in the July-to-September quarter compared with the three months through June. Not even a single respondent expects economic prospects to worsen. But Sunil Duggal, CEO of the ₹7,094-crore consumer goods maker Dabur India, says all sectors would not see revival happening at the same time. “Sectors such as auto and consumer durables will see growth returning much before than infrastructure,” he says.

P. Ramakrishnan, Deputy Managing Director at Bangalore-based Sobha Developers, says three months is a short time frame for conditions to change. “I think the next budget, slated to be introduced in July, holds the key. It should present a road map in terms of what policies the government wants to push through. Because of its clear mandate, there’s no reason for the government to disappoint the industry now,” he says.

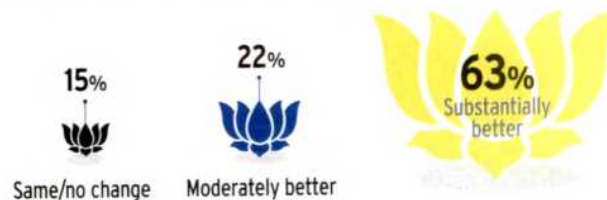
The survey shows that 94 per cent respondents foresee corporate earnings to get better in the next one year. (See *Towards A Better Future*). Also, two-thirds of those polled expect gross domestic product (GDP) growth to return to seven per cent within 15 months, a sharp jump from the Central Statistical Office’s estimate of 4.9 per cent for 2013/14.

Siddhartha Sanyal, Barclays’ Chief India Economist, says while that kind of growth rate looks ambitious, it cannot be completely ruled out. “GDP growth is comparing last year’s economic activity with that of current year. At the moment, the base is so low that when conditions start to turn around, GDP growth would pick up much faster.”

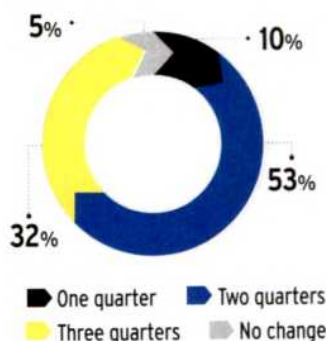
Contrary to the survey results, ratings firm ICRA says in its May report that economic growth is unlikely to recover sharply in 2014/15. “While GDP growth has bot-

TOWARDS A BETTER FUTURE

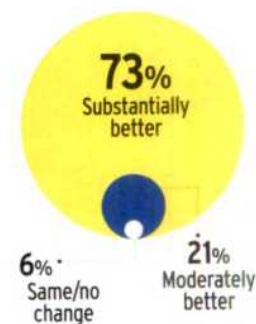
1 How would you describe your confidence in economic prospects facing your business over the July-September quarter, compared to April-June?



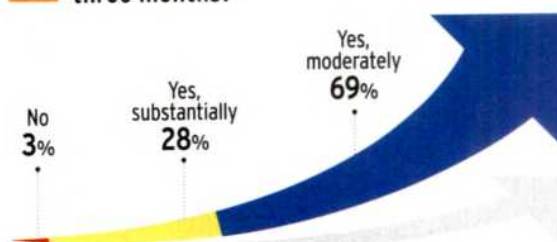
2 How long will it take for the investment cycle to revive?



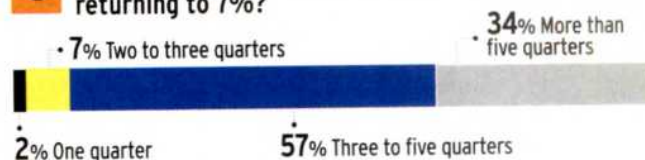
3 How do you see corporate earnings over the next one year?



4 Do you expect consumption to pick up over the next three months?



5 In how many quarters do you see GDP growth returning to 7%?



METHODOLOGY Market research agency *C fore* conducted the Business Confidence Survey among 185 CEOs and CFOs representing various industries in terms of sector and size. The survey was conducted in 12 cities – Delhi, Mumbai, Chennai, Hyderabad, Bangalore, Kolkata, Chandigarh, Lucknow, Nagpur, Kochi, Vizag and Bhubneshwar – between May 23 and May 27.

THE BT-C FORE SURVEY SHOWED 88 PER CENT RESPONDENTS ARE WILLING TO MAKE FRESH INVESTMENTS IN TWO TO THREE QUARTERS

tomed out in the first half of 2014, the agency expects only a mild improvement in growth, from 4.6 per cent in 2013/14 to 5.0-5.5 per cent in 2014/15," the report says.

India's economic environment worsened last fiscal year due to slowing growth, a wide current account deficit, a weak rupee, and high inflation. The situation has improved over the past few months, with the current account gap narrowing, inflation easing and the rupee strengthening, making the next government's task much easier. In April, for instance, inflation based on whole-sale prices fell to 5.2 per cent, a half-point drop from the previous month. Similarly, the current account deficit shrank to 1.7 per cent of GDP in 2013/14 from 4.7 per cent in 2012/13.

However, risks to current account deficit and inflation remain. The Reserve Bank of India's recent decision to ease restrictions on gold imports could again exert pressure on the current account deficit. Also, expectations of deficient monsoon rainfall due to the likely impact of El Niño – a weather phenomenon that could cause drought – could jack up already-high food prices.

Some experts think otherwise. "The impact of El Niño will be muted," says Vinay Khattar, research head at Edelweiss Securities. Ratings firm CRISIL says in a recent report that only two of seven El Niño years in India since 1991 experienced drought. "[It] suggests a nearly 30 per cent chance of an El Niño condition morphing into a monsoon failure."

Another factor working in India's favour is the economic revival of its two biggest export markets – the United States and Europe. In addition, India is likely to get a higher proportion of foreign funds as compared to other emerging economies. "Most



"CONSUMERS ARE MORE CONFIDENT ABOUT THE FUTURE THAN BEFORE. THE CONSUMER SENTIMENT HAS IMPROVED AFTER A LONG PERIOD OF SLUMP"

Kishore Biyani,
Group CEO, Future Group

competing economies – China, Thailand and Russia – are going through some sort of political or economic turmoil," says U.R. Bhat, Managing Director at financial services firm Dalton Capital Advisors.

Critics argue that ground realities have not changed much and the upbeat mood is driven mainly by hype. Dabur's Duggal, however, disagrees. "The hope is backed by strong credentials of the new prime minister [Narendra Modi], which wasn't the case in 1977 when the Janata Party came to power. Its hype was not supported by a perform-

ance track record," he says.

According to the BT-C fore survey, 88 per cent respondents are willing to make fresh investments in the next two to three quarters, and 97 per cent expect consumption to pick up in three months. To some extent, fresh investment is dependent on inflation, and therefore, the movement of interest rates. As long as interest rates remain high, new projects will not materialise quickly.

Bhat says the government needs to take all tough decisions in the first year. "Before the state elections begin, the new government can look into several key areas on an urgent basis," he says, and suggested removing supply-side bottlenecks to tackle inflation. "Since new projects from the private sector will take at least six to eight quarters, the government can expand the fiscal deficit to stimulate the economy by launching new projects on its own," he adds.

Clearly, the new government has its task cut out. A wobbly economy needs more than just band-aid fixes, especially when the expectations are sky high. The BJP made many promises before the elections. Now is the time to deliver on those promises. ♦

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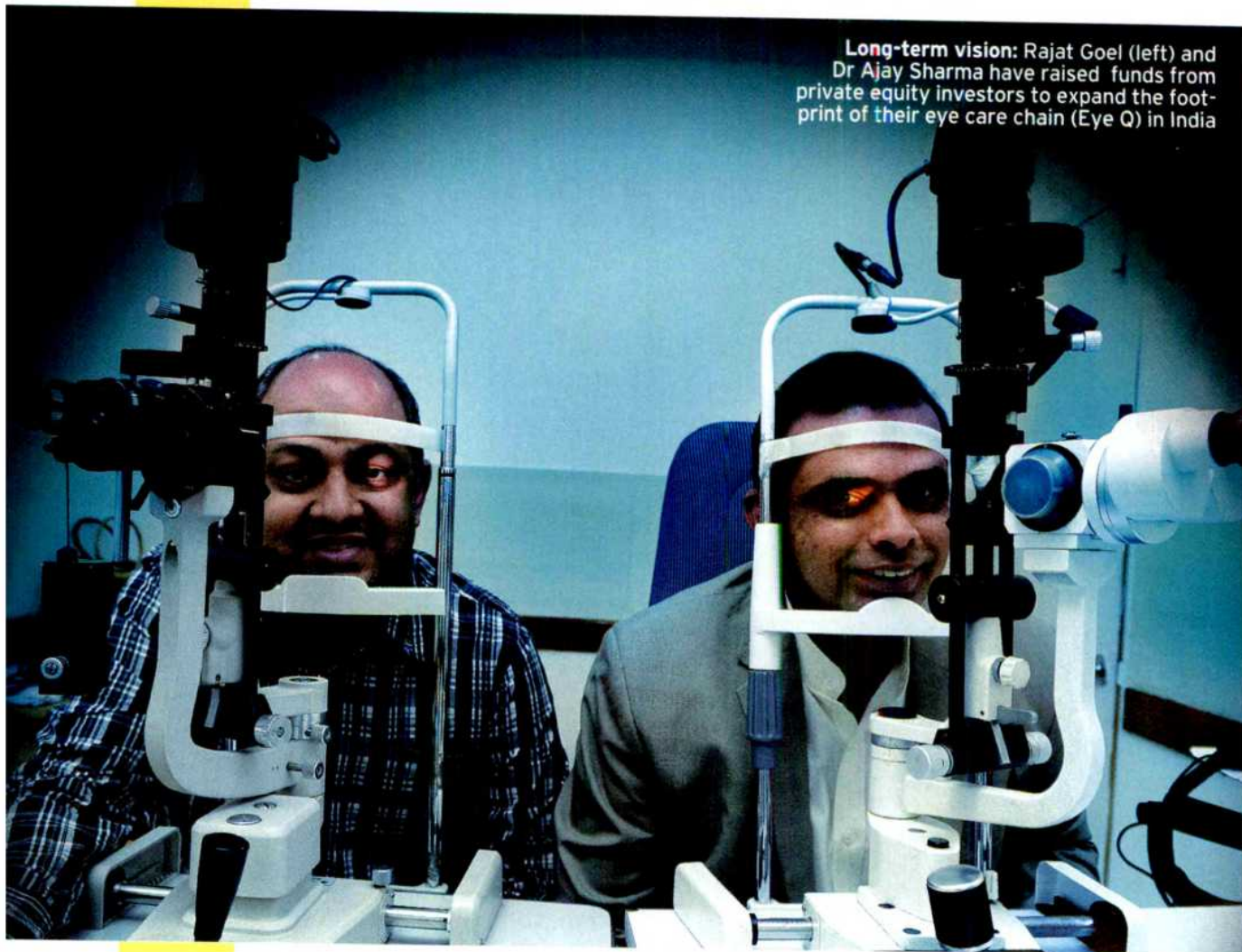
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1. In a 2008 study published by Central Pollution Control Board, MoEF, GOI and Chittaranjan National Cancer Institute, Kolkata
2. USGBC Platinum - first office in India under LEED for Existing Buildings
3. Building 5-star rating by Bureau of Energy Efficiency with AAhEPI of 28 Wh/hr/sqm
4. Six International Certifications - ISO 9001, 14001, 22000, 50001, SA 8000 and OHSAS 18001
5. United Nations Global Compact (UNGC) & Women's Empowerment Principles (WEP)

Long-term vision: Rajat Goel (left) and Dr Ajay Sharma have raised funds from private equity investors to expand the footprint of their eye care chain (Eye Q) in India



Health Draws Wealth

Why health care has become a preferred sector for private equity firms. By SARIKA MALHOTRA

HEALTH CARE IS EMERGING AS A BLUE-EYED SECTOR FOR INVESTORS, PARTLY BECAUSE OF SOME BIG-TICKET EXITS RECENTLY

It was tough going for Rajat Goel and Dr Ajay Sharma. In 2007, they had an eye-care facility called Eye Q in the small, dusty town of Rewari in Haryana. "Being first generation entrepreneurs, we found the initial years challenging," says Goel. The idea was to provide affordable eye care in smaller towns of India. "We started with internal accruals as banks did not lend without collateral. In a high growth and capital-intensive business like ours, capital is critical." Soon they began scouting for private equity (PE) partners to create a socially-driven outfit with a financially-viable business model.

Their efforts yielded results. In 2010, Eye Q raised funding of ₹10 crore from Song Investment Advisors. Eye Q subsequently raised additional capital in two more rounds of funding. Helion Venture Partners and Nexus Venture Partners pumped in ₹45 crore in 2011, followed by another ₹25 crore in April 2013. PE funding has enabled Eye Q to spread its operations across the country. Today it has 28 centres in small towns and cities in India, including Rothak, Hissar, Meerut, Surat and Jhansi. "I can confidently say that PE funding has helped Eye Q take eye care to the masses," says Sharma.

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Video interview with Eye Q founders at businesstoday.in/eyeq-goel



Interview with Amit Mookim, KPMG businesstoday.in/kpmg-mookim

Eye Q is not the only health-care provider riding on funding from PE investors. Indeed, PE investments in health care have been rising over the last few years. In the year 2011, there were 29 investments in the space by PE funds. It shot up to 45 in 2012, and 71 in 2013.

Health care is clearly emerging as a blue-eyed sector for investors, partly because of some big-ticket exits recently. In 2013, Apax Partners exited from Apollo Hospitals for \$360 million, three times its initial investment in 2007. Avenue Capital exited its stake in Medanta in 2013 for \$155 million, more than four times its initial investment in 2006. The number of exits in the sector rose from three in 2012 to nine in 2013. Most of the exits have been through secondary sales to other PE funds.

All PE funds players have identified health care as a primary target for their investment portfolio, says Sanjeev Aggarwal, Senior Managing Director, Helion Venture Partners, which has invested in two tranches in Eye Q. In May this year, Helion invested ₹27 crore in Hyderabad-based dental care firm Denty's. It had also invested ₹35 crore last year in LifeCell International Pvt Ltd, a stem cell bank.

The health-care sector has already clocked 16 PE investments in the first quarter (January to March) of this year. The bullish trend has sustained in the second quarter (April to June) as well with some big deals. Olympus Capital and India Value Fund in May pumped in ₹400 crore in Kochi-based health-care services company Aster DM Healthcare. Also, a clutch of PE investors is looking to buy a majority stake in Vasan Healthcare which operates eye care and dental hospitals.

According to a survey by global manage-

**STEADILY
INCREASING**
PE/VC investments in
health care

2011

DEALS

29

INVESTMENT*

463

2012

DEALS

45

INVESTMENT*

1,262

2013

DEALS

71

INVESTMENT*

1,359

* Figures in \$ mn; Source: Bain & Company

ment consulting firm Bain & Company, retail and consumer goods were the sectors most favoured by PE funds in India in 2012. However, health care became the most preferred sector in 2013. No wonder then, in the last couple of years there have been some big-ticket investments by PE funds in the space, with multinational funds such as KKR and Carlyle leading the way. Last year, KKR invested \$200 million in Gland Pharma, a Hyderabad-based injectables manufacturing company, while Carlyle put \$161 million into Medanta Medicity, a multi-specialty medical institute in Gurgaon. In the same year, Bain Capital invested \$113 million in Emcure Pharmaceuticals, based in Pune.

Neeraj Bharadwaj, Managing Director, Carlyle Asia Partners, says that the Indian health-care industry provides an attractive investment opportunity for PE funds. "India continues to have low hospital bed density and low health-care spend on a per capita basis. But rising income levels, an ageing population, increasing prevalence and awareness of lifestyle diseases and rising insurance penetration have led to a strong demand for health-care services," says Bharadwaj. "The private sector continues to provide superior health-care services and has potential to

further increase its share, especially in the tertiary care segment. Expansion to Tier II and Tier III towns will also be a key driver of industry growth going forward," he adds. Carlyle has an extensive global health-care portfolio. Its current and past health-care portfolio include investments in China, Japan, Turkey and Australia among other countries.

Multinational funds are not the only ones

THE HEALTH-CARE SECTOR HAS ALREADY CLOCKED 16 PE INVESTMENTS IN THE FIRST QUARTER (JANUARY TO MARCH) OF THIS YEAR

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BETTING BIG

Top three investments in health care 2012-2014 (Mar)

Year	Acquirer	Target	Value (\$M)
2012	India Value Fund Advisors	Manipal Health Enterprises	180
2013	Carlyle	Medicity	161
2012	Advent International	Quality Care India Ltd. (CARE Hospitals)	110

Source: Bain & Company

actively chasing health-care assets in India. Karan Singh, Partner and Head of Bain & Co's Asia-Pacific health-care practice, says local funds are increasing their participation in India. He cites the example of Multiples Alternate Asset Management's investment in hospital chain Vikram Hospital and IDFC Alternatives' investment in Medi Assist India, a third-party administrator of health insurance policies.

Indeed, health care in India is witnessing greater interest from PE funds than BFSI (banking, financial services and insurance), another favoured sector of both local and global investors. "Both in PE deal volume and value there is a marked growth in health care," says Singh. BFSI accounted for 41 investments worth \$907 million in 2012, compared to 45 in health care worth \$1262 million. Similarly, in 2013 there were investments worth \$1195 million across 66 deals in BFSI against 71 in health care worth \$1359 million.

However, funds also need a reality check, say experts. Health-care valuations should be judicious, says Singh. More so, given the structural issues plaguing the sector such as a shortage of physicians and nursing staff in India and across Asia-Pacific, he adds.

However, the challenges are unlikely to deter investors who are attracted by the recession proof nature of the industry. KPMG estimates that India's health-care sector had grown to \$78.6 billion in 2012, from \$45 billion in 2008. It expects this to touch \$158.2 billion by 2017. It is not surprising then that in recent years several health care dedicated funds have been launched in the

country. "Focused funding in the sector has created an entrepreneurial environment," says Amit Mookim, Partner and Head of Healthcare, KPMG. "Risk capital funds, including Anand Burman's Asian Healthcare Fund and Singapore- and New Delhi-based Quadria Capital, are raising more money to invest in health-care companies."

Rana Mehta, Leader Healthcare practice, PricewaterhouseCoopers India, says that oncology and orthopaedics would be among the fast-growing categories in health-care segments and would require large amounts of capital. "There is a realisation in the industry of a large latent demand for these services

among Indians," he says. "At the same time, formats like diagnostics, mother and child hospitals, infertility clinics require relatively low amounts of capital but are fast growing and will definitely attract investor interest going ahead," he adds.

Aggarwal of Helion Venture Partners says it is relatively easy to do business, both for investors and companies,

in health care since the sector is lightly regulated. "It does not spring surprises from a regulatory perspective," he says. Since most health-care chains are driven by domestic consumption, Aggarwal envisages there will be a clear window for exits through the capital market. However, he says that valuations tend to be on the higher side since health care is a sought after sector.

Clearly, given the opportunities, there will be sustained PE interest in health care in the years ahead. ♦

\$79bn
Size of the health-care industry

12%
CAGR of health-care industry

THE FEW CHALLENGES, HOWEVER, ARE UNLIKELY TO DETER INVESTORS ATTRACTED BY THE RECESSION-PROOF NATURE OF THE INDUSTRY

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TAXING THE SYSTEM

Differences between the government and Indian companies over how much tax the latter should pay have been growing. More and more companies have been contesting the taxes slapped on them. Interestingly, some of the biggest disputes are with public sector companies. The total amount disputed by end-March 2013 was a whopping ₹4.37 lakh crore

Graphic by **Ajay Thakuri** and **Raj Verma**

Research by **Jyotindra Dubey**

1 The total disputed tax in the books of all listed companies in India has almost doubled between 2008/09 and 2012/13

86,633

2008/09

109,072

2009/10

121,829

2010/11

137,310

2011/12

168,514

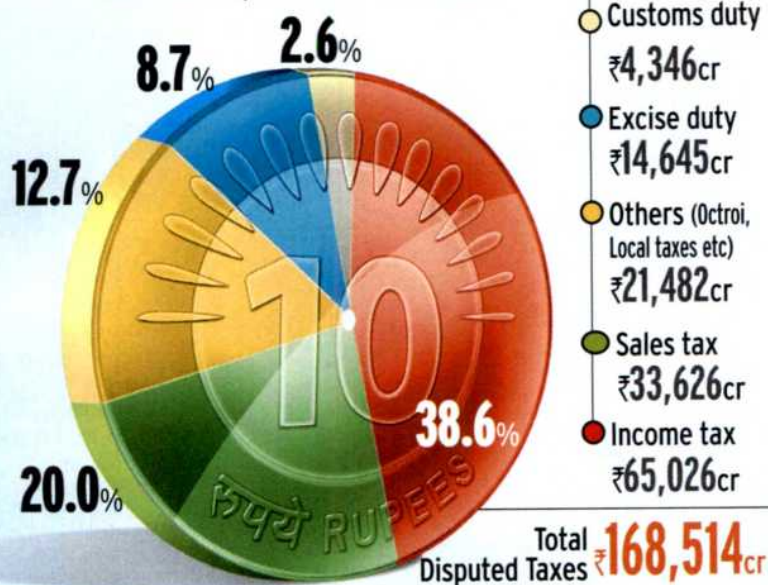
2012/13

(in ₹ crore)



2 The majority of these disputes relate to income tax, followed by sales tax and other kinds of taxes

Share of disputed tax in 2012/13



5 Companies with the highest amount of disputed taxes

(2012/13, in ₹ crore)

ONGC	10,326
IOCL	9,115
GAIL	8,178
SAIL	5,251
HPCL	4,758
MARUTI SUZUKI	4,106
TATA STEEL	4,014
TCS	3,891
BPCL	3,799
MAHINDRA SATYAM	3,051

3 Companies in the oil and gas sector have the largest share of disputed taxes. Next come those in metals and mining

Disputed Tax (2012/13) in ₹ crore



4 In 2012/13, the amount disputed by listed companies alone was ₹1.7 lakh crore. The overall disputed amount was even higher

	NO. OF PENDING CASES	AMOUNT DISPUTED
COMMISSIONER OF INCOME TAX	1,93,525	2,52,846
INCOME TAX APPELLATE TRIBUNAL	29,842	1,21,559
HIGH COURT	30,213	58,033
SUPREME COURT	5,943	4,303
TOTAL	2,59,523	4,36,741*

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Smart gadgets to tackle problems that often arise during travel. By NIDHI SINGAL



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Note: Some of the gadgets are not available in India yet, but are expected soon

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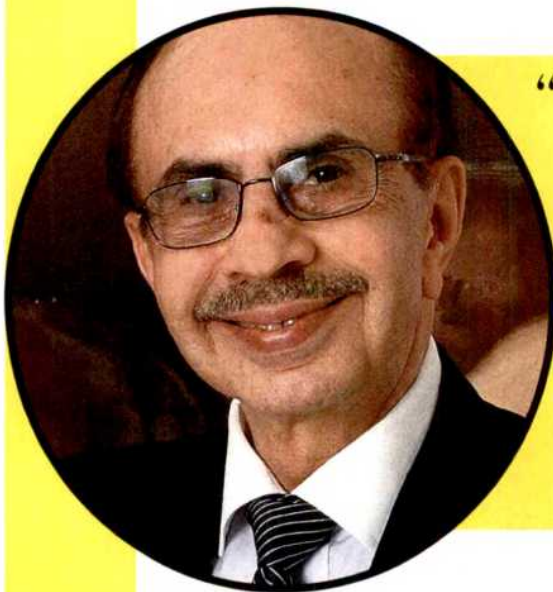
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FOCUS On Record/The New Government

“A strong and intense leader like (Narendra) Modi will be in a position to change the course of dialogue (on US visas for the software industry)”

N.R. Narayana Murthy, Co-founder & Executive Chairman, Infosys, to NDTV



“That the new government will be led by a combination in which one party has a majority in Parliament is an excellent development for India”

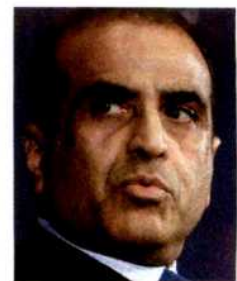
Adi Godrej, Chairman, Godrej Group, in Business Standard

“... IT WILL HAVE TO EMBRACE THE ASPIRATIONS OF THE COMMON MAN AND WORK ON NARROWING THE GAP BETWEEN THE PRIVILEGED AND THE UNDERPRIVILEGED”

Kiran Mazumdar-Shaw, CMD, Biocon, in Forbes India

“... The need of the hour is to bring back business confidence and revive the investment cycle...”

Sunil Bharti Mittal, Founder & Chairman, Bharti Enterprises, in The Hindu



“The immediate priorities would be to resolve issues in existing projects, resolve the retrospective taxation issue and bring clarity around tax laws, contain inflation...”

Chanda Kochhar, MD & CEO, ICICI Bank, in The Hindu



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Growth, not inflation, should be Modi's priority



SUPREET LAKHOTIA
MBA-1, Symbiosis Institute of
Business Management, Pune

AGREE

"The economy faces stagflation, the government must focus on growth"

With the budget due in July, the new government faces the key concern of choosing its main fiscal policy aim: should it promote growth or tame inflation? Despite the RBI pushing up the repo rate to eight per cent, inflation remains threatening. The reason is that the Indian economy faces the prospect of stagflation – a rare but sticky phenomenon.

Contractionary policies have not curbed inflation. Slowdown across the industrial sector is worrisome as seen from the dismal IIP figures. Food articles constitute almost 50 per cent of the consumer price index (CPI), and an inelastic demand for agricultural output has pushed for double-digit CPI. With welfare policies like MGNREGA, not only has the purchasing power of the rural household moved upwards but minimum farm wage price has also increased. Meanwhile, the economy is stuck with supply bottlenecks such as disintegrated supply chain networks and, of course, lackadaisical government machinery.

The new government definitely needs to focus on growth with a two-pronged strategy. First, it should concentrate on infrastructure. This should aim at boosting productivity through resource optimisation (the river-linking programme, single-window clearance, etc) rather than doling out more subsidies. Second, a quick approval of the Goods and Services Tax is needed to ease cash flows and help reduce the ballooning fiscal deficit.

ISHAN SHARMA
PGDBM,
XLRI



DISAGREE

"It is the prime duty of the new government to tackle inflation"

The biggest challenge faced by governments of emerging economies today is to choose between growth and inflation. Both are intertwined. Growth in emerging economies like India can be achieved with comparatively low capital infusion. Such growth turns unsustainable, however, without inflation curbing measures in place.

In 2008/09, the government tried to promote growth by announcing three stimulus packages to the tune of ₹200,000 crore within three months. Short-term growth was achieved, but in the longer term, inflation spiralled and it has become extremely difficult to achieve similar growth levels. The inflation rate for India is 8.3 per cent, lower only than those of crisis-stricken countries like Ukraine, Afghanistan, Egypt, Venezuela, Sudan, and Zimbabwe to name a few. Such trends of continuous inflation in the past have exploded into uncontrollable hyperinflation, which has a devastating effect on a country's economy and takes decades to recover from.

There have been cases in the past where governments, trying to stimulate growth, made deficits so high they could not pay off their debts and this spiralled into hyperinflation. The possibility of an El Nino this year also doesn't help India's cause. India will face severe effects if there is a drought. It is thus the prime duty of the new government in tandem with the RBI to roll out policies to tackle inflation.

The debate continues online. Management students, do log on to www.businesstoday.in/bschooldebate and record your views as well, to make this an intellectually stimulating endeavour. The most well-thought-out comment wins a year's subscription to *Business Today*

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ROUGH AND TUMBLE

ILLUSTRATION BY AJAY THAKURI



The scrum is done. The referee has called "Touch", "Hold", and "Engage". The ball is in play. The forward, with an unprecedented mandate in his hands and comparable expectations on his shoulders, makes a run towards the posts. Just then, he realises that the ball in his hands is a can of worms/hornets' nest/live bomb (insert your favourite ominous expression here).

They have a phrase in rugby: hospital pass. It is an untimely one that results in the recipient being attacked by rival players in such a vicious way that it can land him in hospital – rugby is very different from genteel cricket. The outgoing government of the United Progressive Alliance has lobbed several of those passes in the general direction of the new government.

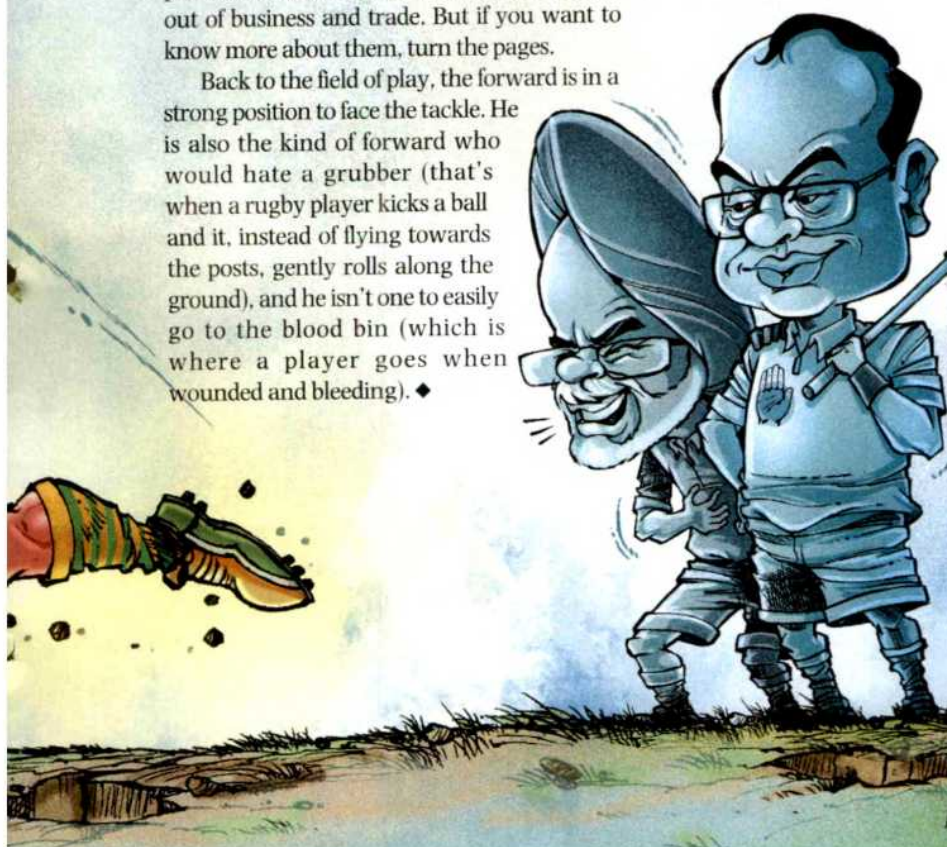
Prime Minister Narendra Modi and his team of ministers have burst off the blocks with earnest voices (see *What Lies in Store* on page 64). But it will take a lot more than earnestness – dexterous floor management in Parliament being one, unwavering determination another – to get past the UPA's legacy.

A 2010 McKinsey report says India will need to build 700 to 900 million square metres of commercial and residential space, 350 to 400 km of metro railways and subways, and 19,000 to 25,000 km of road lanes every year. The land may be available, and may yet be out of reach.

The new land acquisition law requires you to pay twice the market value in urban areas and four times in villages. And it came after prices had already multiplied four to five times over the previous decade. Amitabh Kant of the Delhi Mumbai Industrial Corridor says land prices are now five and a half times the market rate. Adding emotion to this equation, Navin Raheja, the head of Raheja Developers, says he would be better off not working at all.

Our intent is not to be carping Cassandras, so we will not tell you about the retro tax that has muddied the waters for foreign investors, the new Companies Law that is raising anxiety levels over operational issues, or the plethora of other laws, most of them archaic, that threaten to snuff the life out of business and trade. But if you want to know more about them, turn the pages.

Back to the field of play, the forward is in a strong position to face the tackle. He is also the kind of forward who would hate a grubber (that's when a rugby player kicks a ball and it, instead of flying towards the posts, gently rolls along the ground), and he isn't one to easily go to the blood bin (which is where a player goes when wounded and bleeding). ♦



No Promised Land Page 42

Acquiring land for the development he has promised to bring about will be one of Narendra Modi's biggest challenges

Lighten the Load Page 52

The new government must initiate urgent tax reform to encourage companies and revive investor confidence

Overdoing the Vigilance Page 54

In its zeal to prevent fraud, the new Companies Act has made normal corporate functioning near-impossible, feels industry

Stifling Acts Page 56

The Modi government needs to update many rules and regulations to create jobs, eliminate corruption and promote economic growth

What Lies in Store Page 64

Key pronouncements of some of the new ministers

Summer of Discontent Page 66

The manufacturing sector continues to struggle with labour strife. It is time for some soul searching

NO PROMISED

ACQUIRING LAND FOR THE RAPID DEVELOPMENT HE SEEKS WILL BE ONE OF NARENDRA MODI'S BIGGEST CHALLENGES.

By **SUNNY SEN,**
SARIKA MALHOTRA
and **MANU KAUSHIK**
Research inputs by **NITI KIRAN**



IN DISTRESS

Some of the prominent projects stuck due to land acquisition problems over the past two years.

Source: CMIE

LAND

Tata Steel Ltd.

PROJECT NAME
Jharkhand Steel Phase-II Project

PROJECT SIZE*
₹22,000cr

STATUS Stalled

LOCATION
Tontaposi, Jharkhand

Arcelor Mittal India Ltd.

PROJECT NAME
Kendujhar Steel Project

PROJECT SIZE*
₹40,000cr

STATUS Abandoned

LOCATION
Kendujhar, Odisha

Bramhani Industries Ltd.

PROJECT NAME
Kadapa Integrated Steel Project

PROJECT SIZE
₹6,850cr

STATUS Abandoned

LOCATION
Kadapa, Andhra Pradesh

Neyveli Lignite Corpn. Ltd.

PROJECT NAME
Jayamkondam Lignite Based Power Project

PROJECT SIZE
₹9,000cr

STATUS Abandoned

LOCATION
Tiruchirappalli, Tamil Nadu

Nuclear Power Corp. Of India Ltd.

PROJECT NAME
Kovvada (Srikakulam) Nuclear Power Project

PROJECT SIZE*
₹60,000cr

STATUS Stalled

LOCATION
Srikakulam, Andhra Pradesh

Days before the Narendra Modi-led National Democratic Alliance (NDA) won the general elections, Ravi Uppal, Group Chief Executive Officer and Managing Director of Delhi-based Jindal Steel and Power Ltd (JSPL), heaved a sigh of relief. But this had nothing to do with Modi's imminent victory. Uppal was relieved because JSPL's ₹30,000 crore project at Angul district in Odisha – a six million tonne steel plant – could now finally be fully commissioned.

The project had been ready for the past two years but some of the units could not be commissioned because JSPL was unable to get access to a three km stretch to connect a 25 km pipeline to the nearby Brahmani river. The remaining 22 km of the pipeline had long been laid. The company planned to draw water for the project from the Brahmani river through the pipeline.

But landowners had refused to give their land for the last mile connectivity. "They would do dharnas. Our requests to state authorities were neglected. We were left helpless," says Uppal. Finally, he managed to convince the local authorities to act. The police kept protesters at bay while the final stretch of pipeline was laid.

Uppal managed to resolve his problem, but another 106 projects have not been that lucky. They have been stalled over the past two years because of land acquisition problems. According to the Centre for Monitoring Indian Economy, 70

of those were worth ₹3,52,480 crore. About 30 per cent of these were government projects, while the rest was in private hands, both Indian and foreign. In the last year of the Congress-led United Progressive Alliance government, projects worth ₹1,81,126 crore got stalled, shelved or abandoned.

That's not all. Work on planned 69 national highways – stretching across 8,000 km – was yet to start as of January, according to rating agency ICRA. Again, the delays were mostly due to land acquisition problems. "Many of these were awarded two years back," wrote Aditi Nayar, Principal Economist at ICRA, in a recent report.

In an attempt to solve land acquisition problems, the UPA government brought in the Right to Fair Compensation and Transparency in Rehabilitation and Resettlement Act 2013, commonly called the new Land Acquisition Act, early this year. The intention was to make land acquisition more transparent and farmer friendly. But many economists and industrialists hold that the new act is as much a deterrent to growth as the old one was.

Arvind Panagariya, economist and Professor at Columbia University, says that the Act is "damaging" for both the seller and the acquirer. "With the cost in terms of time as well as money multiplied manifold by the Act, no new land acquisition has taken place since January," he says. He maintains the Act will adversely affect both urbanisation and development.

Many now expect Modi to come to the rescue of the industry with amendments to the Act. But the BJP supported the new Act in Parliament.

The Price Tangle

The previous Land Acquisition Act was framed in 1894, when India was under British rule. The rules for acquisition were simple. The state governments – land is a state subject – just had to notify to landowners that their land was being acquired. They would be paid the nominal circle rate (minimum rate of land in a particular area decided by the government) or the ready reckoner rate (the prices of land for any given area published by the



MAJOR HURDLE

Details of 70 of the 106 projects stalled due to land acquisition problems over the past two years

STALLED PROJECTS BY OWNERSHIP

Aggregate cost (₹ cr) | Project cost as percentage of total cost

Government*

96,043.50 | 27.2

Private (Indian)

1,63,886.5 | 46.5

Private (Foreign)

92,550 | 26.3

TOTAL

3,52,480

*includes Central, state and government local bodies
Source: CMIE

government each year). This was way lower than the prevailing market rate, at times even one-tenth of it, and the land owners suffered.

In the new Act, not only have the rates been corrected, but the land buyer has to pay twice the market value of the land in urban areas and four times in rural areas. There is also an additional compensation to be paid to the affected families to ensure their rehabilitation and resettlement (R&R). Companies are expected to employ those from the displaced families. "We have now swung the Act to the other extreme. We have made land so expensive that it is unaffordable for industry," says B. Muthuraman, Vice Chairman of Tata Steel.

Muthuraman, in partnership with industry lobby Confederation of Indian Industry (CII), has estimated that a 1,000 megawatt power plant – at a project cost of ₹6,000 crore – would require 1,000 acres of land. The cost of acquiring the land alone will be close to one-third of the total cost. The R&R cost too will be prohibitive, rising from an earlier ₹150 crore to ₹450 crore. "In such a situation, the project will simply be unaffordable," says Muthuraman.

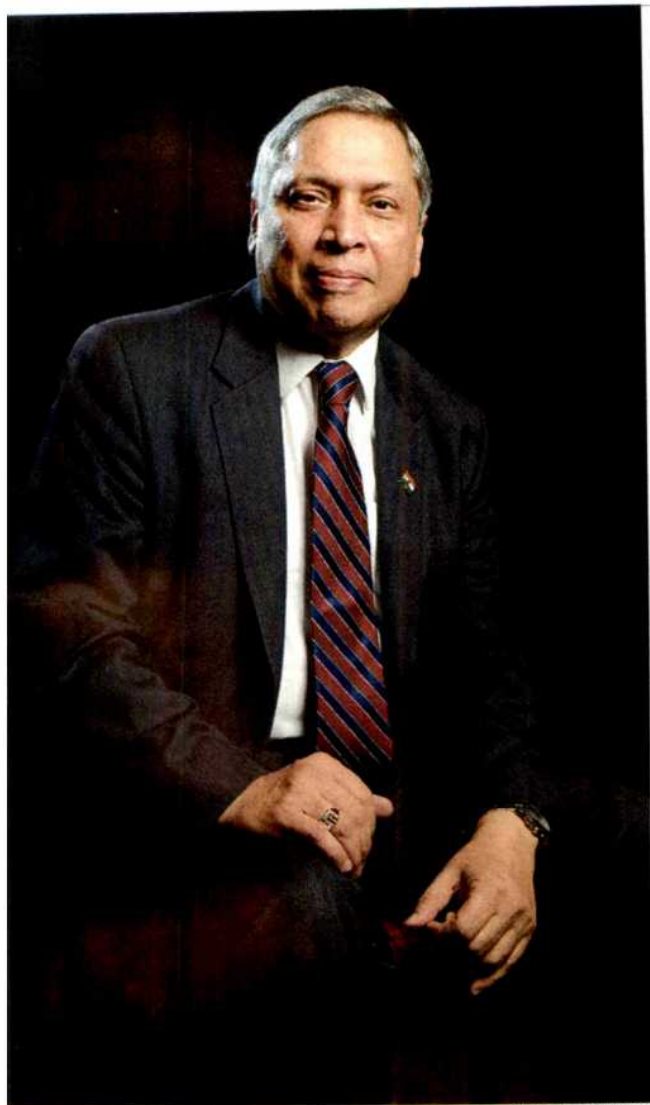
There are two mega infrastructure projects currently on in India – the Delhi Mumbai Industrial Corridor (DMIC) and the Mumbai Chennai Industrial Corridor. They aim to develop new industrial cities as "Smart Cities" and converge next generation technologies across infrastructure sectors. Both the projects are delayed because of land acquisition issues. DMIC is assisting state governments in acquiring land in Haryana, Rajasthan, Madhya Pradesh, Gujarat

and Maharashtra. "While acquiring land in Aurangabad, land prices went up to 5.5 times the market rates simply because landowners were not willing to sell at a lower price. Everything is becoming unviable," says Amitabh Kant, Director, DMIC.

Consider the Navi Mumbai International Airport project. Only 10 per cent of total land required – about 270 acres – remains to be acquired but the process has hit a roadblock as villagers are not vacating land needed for the project. City and Industrial Development



Interview with Anuj Nangpal, Investor Services, DTZ
businesstoday.in/dtz-nangpal



VIVAN MEHRA

Corporation (CIDCO), the nodal agency for the airport, will start acquisition afresh as per the provisions of the new Act. According to market estimates, the cost of the land will go up eight to nine times, making the remaining 10 per cent as expensive as the 90 per cent of the land already acquired.

Real estate companies, which have seen a big boom in the past one and a half decade, are worried too. Navin Raheja, Chairman and Managing Director of Raheja Developers, says that at least 50 acres of land are needed to build a township. Land acquisition at this scale would require rehabilitation of the affected families, a process that could go on for several years. "I cannot leave such a burden for my successors. It is better that I don't work at all. We don't have plans to make any new townships unless this law is repealed," he says. A separate department to take care of R&R activities might be needed soon, he adds.

It is not Raheja alone. Mumbai-based real estate veteran Niranjan Hiranandani, Managing Director of Hiranandani Group, echoes the same concern. "If some-

one is already paying a premium, then why should he pay solatium, and look at R&R and employment. We will not look at large sized projects that will affect us because of the Land Acquisition Act," he concludes. Solatium, a word with Latin roots, stands for compensation given as a solace to acquire a piece of land where the landowner is emotionally connected to the land.

Given the escalating cost of land, Modi's mission of building 100 smart cities – a project he committed himself to in his election campaign – looks like a distant dream, according to Raheja. Indeed, without real estate companies promoting the newer cities, the project might be a non-starter. But pricing is just one of the many problems with the new Land Acquisition Act.

Time Consuming

The 1894 Act enabled the state governments to acquire land on behalf of a company. But lately the states have found it tough to acquire large swathes of land for big

projects. Consider the examples of Posco's steel plant project in Odisha and Tata Motors' Nano plant in Singur, West Bengal. Both the projects were stalled when villagers decided not to allow industrialisation, resulting in huge losses to the companies. Posco is still stuck in Odisha, and Tata Motors moved its plant to Gujarat in 2008, when Modi was the chief minister.

The new Act mandates that the land acquirer – either the state government or private entities – will have to take consent of the displaced. If land is acquired for public-

private partnership projects, consent of 70 per cent of the affected parties will be required, while for private projects 80 per cent consent is mandatory. This is in addition to doing a social impact assessment and R&R.

Given the complete process, which is deemed complex by many, the time to acquire land is estimated to be around 56 months by industry bodies and consultants. But the complete procedural rules, based on the provisions of the Act, are yet to be laid down. The states will play an important role in making the rules and procedures, like the time period for taking consent, doing a social impact study and creating processes for R&R, and other such rules. "One does not know the rules. They are yet to be notified. The present legislation will neither help

"Landowners would not budge. We finally convinced the local authorities to act"

Ravi Uppal
 Group CEO and MD/JSPL

THE GUJARAT MODEL

Early last year, a large French food equipment manufacturer had bought more than 50 acres of land from farmers in Gujarat to set up a plant. But only to realise later that the land had already been acquired by the state government. The company executives and a handful of lawyers went and met one of Narendra Modi's officials and discussed the problem. Modi was then the chief minister of the state.

The official ruled that even though the company had bought the land from the farmers, it still had to pay the government prescribed "jantri" or area rate. The legal tangle did not stop the company's work and within six months the land was awarded to them. "The company had to pay more,

but the relief was quick. The people in the government are forthcoming and help the industry," says a lawyer who went to Gujarat to get the clearance for the French company.

Indeed, to encourage farmers to willingly give their land for industrial projects, the Gujarat government promises to make them "partners" in the developmental projects. The state pays market prices for the land to the displaced. It also provides employment to a member of each family whose land is acquired. "The best answer of acquiring land lies in Modi's Gujarat model - partnership and negotiation. Every community and micro-market needs a different approach," says Lalit Jain, Chairman of Confederation of Real Estate Developers' Associations of India.



A recent report by the World Bank and the World Economic Forum - called the *Best Practices to Improve the Business Environment across India* - mentions that the Gujarat Industrial Development Corporation has made land acquisition in the state simple by using scientific methods to determine the market price of the land. It ensures that the landowners are not taken for a ride.

In the past couple of years, three major land disputes were reported in the state. But Gujarat's track record appears better than most other states in the country.

the farmers nor the industries," says Anil Swarup, Chairman of Prime Minister's Project Monitoring Group (PMG), a body that works with various ministries to facilitate large project clearances.

Nobody would acquire land for projects if the process takes inordinately long, say industry sources. Ramesh Menon, Director, Global Initiative for Restructuring Environment and Management, further points out that

all projects which did their viability reports before August 2011, when the new Act was conceptualised, have to necessarily revisit their numbers if the land hasn't been acquired yet

"Earlier, the acquisition process used to take three years but with the new policy it may take up to five years. It should not be more than 18 months," says L.

Madhusudan Rao, Executive Chairman, Lanco. The company's 1,320 megawatt power plant project in Dhenkanal district in Odisha got delayed because of land acquisition woes.

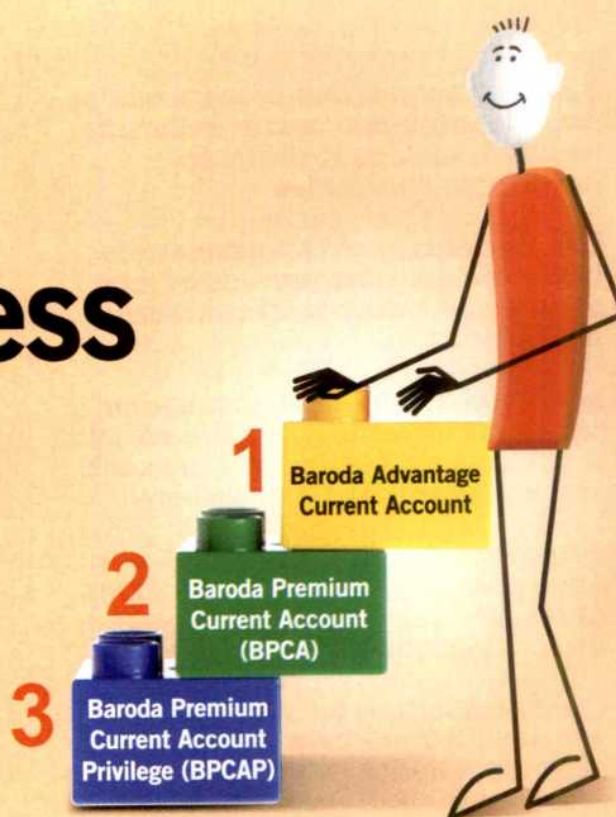
Institutional investors are no less worried even though they agree that the earlier law shortchanged landowners. "There are various aspects that are unclear, rendering greater uncertainty on the feasibility for such land acquisitions. The primary debate is whether the larger government intervention and

"Often the villagers are not against land acquisition, it is the middlemen"

B. Muthuraman
Vice Chairman/Tata Steel



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TIME FOR COURSE CORRECTION: CHALLENGES OF THE ACT

The land acquisition process will be more lengthy and costly under the new Act, making it difficult for private companies

The Social Impact Assessment is likely to delay the process of land acquisition, which might increase project cost

Large patches of land acquisition for smart cities will be difficult as it will require 70 per cent consent for public-private partnerships

Government will have to shell out huge cost to pay two to four times of market value and further spend on rehabilitation and resettlement

Land acquisition for private projects will need 80 per cent consent from affected families, which will be a big problem

In case the acquired land remains unutilised for five years after acquisition, the Act empowers states to return the land either to the owner or to the State Land Bank

lengthy process of acquisition will make projects unviable," says Archana Hingorani, Chief Executive Officer of IL&FS Investment Managers.

But there are some who do not agree that the Act has severe shortcomings. "I don't see there is a problem," says Vinayak Chatterjee, Chairman of consultancy firm Feedback Infra. Chatterjee argues that the "law" is a policy framework which translates into rules and procedures. "Many of them can be collapsed and the time period can be reduced to one and a half years," he comments. One way possible is taking consent and doing the social impact study simultaneously, instead of doing them separately, he adds.

The Other Parties

There are other sets of stakeholders, besides the buyer and the seller, who might use the law for their own benefit. Whenever a large group wants to acquire land, or when

a township is created, apart from local politicians, there are many more who want to reap the benefit. For example, Gurgaon, the satellite township of Delhi, which has grown manifold in the last decade, has more than 1,000 real estate brokers. They play an important role in jacking up land prices. "In India, it is very difficult to buy land from people if you tell them that Reliance or Jindal is setting up a plant in their area. Land is purchased secretly through brokers," says a chief executive of one of the large infrastructure companies.

The new Act provides no way of controlling this growing menace. "Often the villagers are not against land acquisition, it is the middlemen. The process of consent should be devoid of unruly elements," says Muthuraman.

Some suggest that the adoption of technology on a large scale will make the land acquisition process trans-



"With the cost in terms of time as well as money multiplied manifold by the Act, no new land acquisition has taken place since January"

Arvind Panagariya
Professor, Columbia University

parent. This will help in keeping politically motivated people away. PMG's Swarup suggests that the entire process of acquisition should be digitised and be publicly available on the Internet. He had done so with projects stuck because of lack of environment and forest ministry clearances. Digitisation has partly helped Swarup clear projects over ₹500,000 crore. From submission to the clearance of the project, the entire process was digitised. Earlier, no

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Putting India First


 Interview with Archana Hingorani
businessToday.in/ilf-hingorani

VIVAN MEHRA/www.indiatodayimages.com



one knew where the project was stuck. After digitisation, anyone could know the status of the project and communicate with the respective departments.

In India, industry occupies only three per cent of the country's land. In more developed countries like Japan and the US, industries take up to seven per cent. India has a long way to go, but there is little land available. One-third of the land is under reserved forest, which cannot be touched. Then, there are water bodies, and a huge part of the remaining land is for multi-crop irrigation, which cannot be put to commercial use as over 60 per cent of the population feeds on income from agriculture.

DMIC's Kant is in favour of urbanisation as the agri-economy is growing at a dismal two to three per cent. "If the country has to grow faster, the manufacturing sector has to play an important role and for that more land is required," he says. India will need to build 700 to 900 million square metres of commercial and residential space, 350 to 400 km of metros and subways and 19,000 to 25,000 km of road lanes every year to support its growing urbanisation consultancy firm McKinsey estimated in 2010. The requirements would have only gone up now.

"Coping with the enhanced project costs resulting from the new Act might be a severe setback for infrastructural development and urbanisation attempts," says Anuj Nangpal, Managing Director, Investor Services at consultancy firm DTZ.

The new Act needs to go, or be overhauled, says the industry. "The challenge for the next government is how to grow India's manufacturing capabilities and create more jobs. The Land Acquisition Act in its present form needs to be scrapped and rewritten if the new government seriously wants to do development," says Sunil Kanoria, Vice Chairman of Srei Infrastructure Finance. He also adds some companies would also pay a higher price if they are convinced that the land can be acquired quicker, but even that does not happen.

Kant is optimistic. He believes that the central government can modify the Act as per requirements. But then there is a widespread belief that the entire act needs to be changed. "If it is believed that the new government can

improve this act just by modifying it, then it is a misguided belief. The entire act itself is flawed," says S.V. Goyal, CEO, Reliance Haryana SEZ, a subsidiary of Reliance Industries.

An amendment to the Act, if attempted, will require it to be cleared by both houses—the Lok Sabha and the Rajya Sabha. Even though the ruling NDA has a clear majority in the Lok Sabha, it is in a minority in the Rajya Sabha. To bring in any changes in the new Act, the government will have to evolve a consensus with the opposition parties and that may prove elusive. "However, there's still

"I don't see a problem. The law is just a policy framework which translates into rules"

Vinayak Chatterjee
Chairman/Feedback Infra

chance of holding a joint parliament session to find a way out," says Upasna Bhardwaj, Economist at ING Vysya Bank. Panagariya suggests abandoning the new Act and bringing back the earlier law after amending it to address the genuine grievances of those whose land was acquired without due compensation.

However, it doesn't seem that the Modi government has any intention to amend or overhaul the new Act. Just after getting sworn in as the Minister of Rural Development, Gopinath Munde told *The Financial Express* that the Act was a "very good" legislation, which the BJP had supported. "Now it is my responsibility that this law should be implemented. I will do this rigorously. For last 20 years, people were demanding this new legislation," he said. All eyes will be on Prime Minister Modi and his team to see whether they persist with this stance in future or heed the calls of the Indian industry and change course. ♦

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LIGHTEN

THE NEW GOVERNMENT MUST INITIATE URGENT TAX REFORM TO ENCOURAGE COMPANIES AND REVIVE INVESTOR CONFIDENCE.

By ANILESH S. MAHAJAN and GOUTAM DAS



A Google search for 'tax terrorism in India' returns nearly eight million results. Most of it is junk – everything from advice on containing militancy to the activities of the terrorist group Lashkar-e-Taiba. But pages after pages are also about the acts of India's income tax department, whose officials have slapped tax evasion cases against several companies including Vodafone, Nokia, Shell India, and General

Electric in the recent past.

The catchphrase became popular after the Bharatiya Janata Party (BJP) mentioned it in its manifesto for the Lok Sabha polls, where the party won a landslide victory. Indeed, soon after taking charge of his office, Law Minister Ravi Shankar Prasad said: "Retrospective taxes should be avoided in the maximum. Our larger view is that the fiscal, policy and taxation regime must be evident because India needs investment...Those who invest in India may not have to face uncertainty."

It is easy to see why the phrase "tax terrorism" caught on. As of December 2013, there were 45 corporate cases where direct-tax demands were more than ₹500 crore. Overall, outstanding corporate tax demands from both listed and unlisted companies stood at a staggering ₹2,46,416 crore. To add a bit of perspective, this is more than half of the corporate tax (₹4,51,005 crore) for 2014/15 estimated in the interim budget announced in February. (See *Taxing the System* on page 32).

The inflection point for "tax terrorism" came in 2012 when the government retrospectively amended a law to tax mergers and acquisitions between any two

THE LOAD



companies if the underlying assets were in India. The trigger was a 2007 deal in which mobile-phone operator Vodafone bought Hong Kong-based Hutchison Group's stake in local telecom services provider Hutchison Essar. It was an off-shore deal since the Vodafone and Hutchison group companies that bought and sold shares of Hutchison Essar were based out of India. But tax authorities held the deal was taxable in India because profits were realized from the indirect transfer of a local asset. Tax claims slapped now total ₹20,000 crore, including penalty. However, the Supreme Court ruled in Vodafone's favour. Soon after the judgement, the government amended rules which allowed it to claim tax retrospectively on such transactions, effective April 1962.

No one knows for certain how many cases tax authorities have opened evoking the retrospective amendment. Depending on whom you speak to, the number could vary from 20 to 100. One known case is that of Scottish explorer Cairn Energy. The company's bid to sell a 10 per cent stake in Cairn India was halted by tax authorities earlier this year. They alleged the company made capital gains of ₹24,500 crore in 2006/07 when it amalgamated its group companies and assets, some of them foreign ones, under the umbrella of Cairn India. The company says there were no capital gains since it was an internal reorganisation.

The dispute has hurt Cairn Energy. The company's shares on the London Stock Exchange fell from 268 pence on January 14, a day before the tax notice was issued, to 151.3 pence on March 24. "The company plans to invest \$400 million in projects from North Sea to the shores of North Africa," says an executive who does not want to be named. "Now things cannot move at the anticipated pace."

Such cases have affected foreign direct investments into

A TWO-DECADE ORDEAL

The five-tier structure to resolve disputes between authorities and taxpayers takes a long time to reach a conclusion

Organisational Level
ESTIMATED TIME

Assessing Officer
1-2 YEARS

Commissioner of Income Tax (Appeals)
3-4 YEARS

Income Tax Appellate Tribunal
2-3 YEARS

High Court
3-5 YEARS

Supreme Court
5-8 YEARS

Source: FICCI

India. "The first thing as an investor I look for is the pattern of policies," says Ravi K. Mehrotra, Chairman of London-based Foresight Group, which has invested in retail and oil exploration sectors. "I would be scared to put in money where the government changes law in such a way."

So what can the BJP-led government under Prime Minister Narendra Modi do?

Taxation experts *Business Today* spoke with say there is an easy way out – amend the amendment. "The government can make the law prospective," says Dinesh Kanabar, Deputy CEO at consultancy KPMG India. "The amendment should be made effective from April 1, 2013, because it was introduced in parliament in the Finance Act, 2012. This is the correct way to go ahead," he adds.

Mukesh Butani, Managing Partner at professional services firm BMR Legal, says repealing the law would mean the Supreme Court decision in the Vodafone case stands. "Even if you forgo taxes, you will buy a lot of goodwill. The second option before the government is to go ahead with arbitration [Vodafone wants arbitration under the India-Netherlands bilateral investment treaty]. However, the government will cut a sorry figure if it goes in favour of Vodafone," he says.

It's early days yet but the Modi government is sending out the right signals. Law Minister Prasad's comments are reassuring for Ajay P. Singha, Executive Director at the American Chamber of Commerce in India, an industry body that has been demanding simplification of taxation, more transparency in govern-

ment contracts and a better investment climate. "There are investors queuing up to invest in India. If Mr Jaitley [Arun Jaitley, the new finance minister] happens to bring in these changes, tax revenue will also increase," he says. ♦

@anileshmahajan, @Goutam20

OVERDOING THE VIGILANCE

IN ITS ZEAL TO PREVENT FRAUD, THE NEW COMPANIES ACT HAS MADE NORMAL CORPORATE FUNCTIONING NEAR-IMPOSSIBLE, FEELS INDUSTRY.

By TINA EDWIN

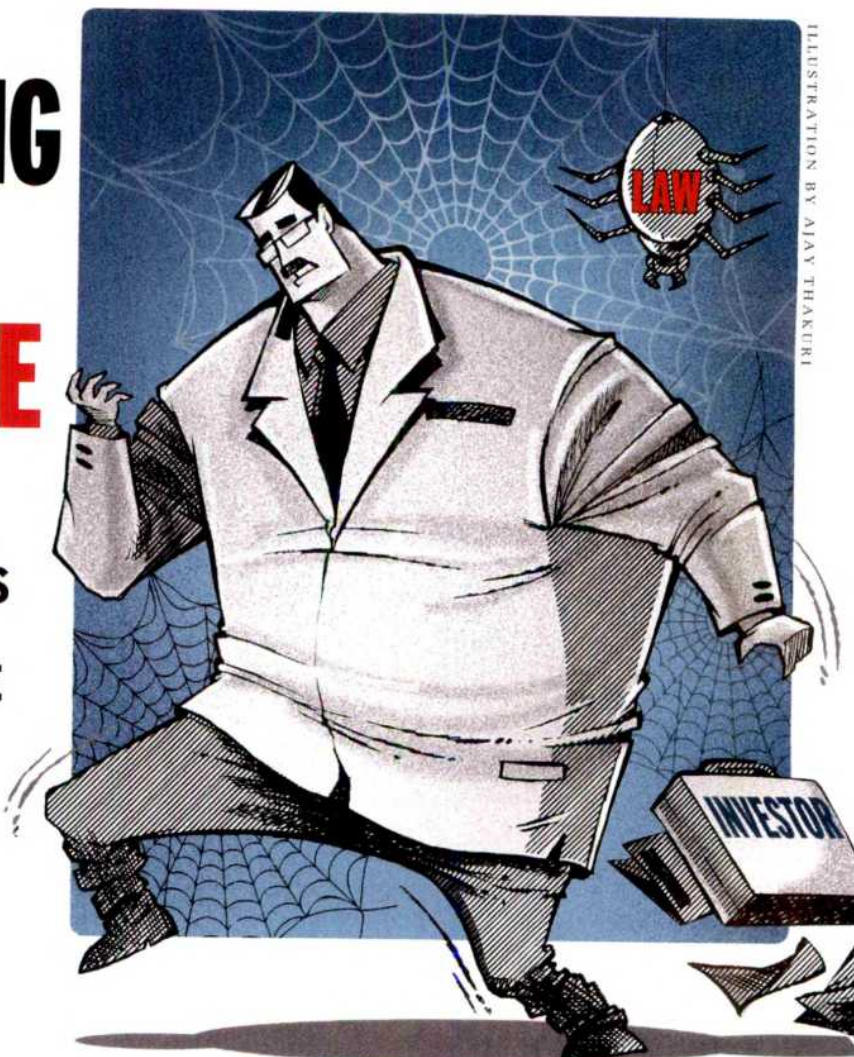


ILLUSTRATION BY AJAY THAKURI

India Inc's unhappiness with the Companies Act 2013 is not limited to issues such as appointing independent directors, a woman director, audit rotation or even the mandatory corporate social responsibility (CSR) requirement. It's everyday operational issues that are raising anxiety levels of promoters, professional managers and their legal teams and auditors.

The problems started with the manner in which the Act was rolled out. There were two problems with the approach. First, the United Progressive Alliance (UPA) government opted for a phased implementation of the new Act instead of full-scale one. Two, most rules that make the Act effective were made public only in the last week of March and companies were expected to comply with them from April 1. This is in sharp contrast to a

globally accepted practice of giving companies a year or two to familiarise themselves with a new regulatory regime before it comes into force. To make matters worse, in some instances, the final set of rules were more stringent than the draft rules put to discussion, and in other instances, they seemed to be in conflict with the Act itself. It also turns out that the government did not follow the prescribed practice of notifying the rules through the gazette before the effective date – and this is causing some confusion whether the effective date should be read as the date of the gazette notification.

The industry is in a situation where it has to refer to both the 1956 and the 2013 versions of the Companies Act and their rules before taking or acting on any decision, says Harinderjit Singh, Partner, Price Waterhouse in a recent media briefing. But that's a small problem.

Bigger problems arise in complying with the law. Major areas of concern include laws on related-party transactions, capital raising, directors' liabilities, prison terms for contravention of the law, fraud reporting and whistle blowing. The fear is the new law will make carrying on business extremely cumbersome and even restrict normal operations.

Consider, for instance, the rules on related parties. The definition of relatives is compact in the final set of rules but what's worrying industry is the wide ambit of related-party dealing. That affects not just who can be an independent director of a company or its auditor but who can vote on board and shareholder resolutions where it involves certain transactions between companies. Private, closely held companies would be worst hit by the tightening of rules on related-party transactions.

The new law requires some related-party transactions to be cleared by a special resolution of shareholders of the company and bars a shareholder who is a related party from voting. However, all related parties may not be an interested party in the relevant transaction but that distinction has not been made in the law. "This can create a problem in smaller or closely held companies where all shareholders are related parties. Therefore, obtaining shareholder approval in such instances for related-party transaction may not be possible," points out Bharat Anand, partner at law firm Khaitan and Co.

These rules, he added, were imported from UK Listing rules, where it applies only to UK-listed companies. It is, therefore, illogical to apply these rules to closely held companies in India.

Capital raising is another area of concern, and particularly preferential allotment of shares. The rules have been changed to make it similar to private placement, where the company is required to issue an offer letter, make various disclosures and specify dates when the preferential offer will open.

Another issue is that non-convertible debentures (NCD) can be issued for a five-year term, which many see as restrictive as it is a norm to issue long-term debentures.

TOUGH PROVISIONS

Major pain points of the new Companies Act

MANDATORY CSR SPENDING

Companies have to spend two per cent of average profits of past three years on CSR activities. Only those activities specified by the Companies Act as such constitute 'CSR'

INDEPENDENT DIRECTORS

All public listed companies and certain unlisted public companies have to appoint independent directors. A fixed term and restrictions on who can be appointed means very few people are eligible

MANDATORY ROTATION OF AUDIT FIRMS

Audit firms can be appointed for a maximum two terms of five years each. The law applies with retrospective effect so companies will have to find new auditors in three years

FRAUD REPORTING

Definition of fraud includes any act of omission, concealment of fact or abuse of position. It invites criminal liability involving imprisonment instead of civil liability

Companies have also been restricted from extending loans to directors as well as to other companies with which a director of the company is associated. The new law also places some restrictions on lending to subsidiaries and associate companies and specifies when exceptions can be made. Likewise, inter-corporate loans have also been restricted and such loans can be extended at a specified rate of interest. This measure will hurt private companies the most.

Restrictions placed on setting up multiple layers of subsidiaries is another pain area for companies. The new law allows companies to have only two layers of investment subsidiaries, with an exception allowed for foreign acquisitions. This means corporate groups will need to change the structure of their businesses in the future.

Indian subsidiaries of multinational corporations will face problems committing funds to CSR requirements because such contributions are not allowed under the Foreign Exchange Management Act. Their contributions under CSR requirement to charitable organisations will be subject to the Foreign Contribution Regulation Act.

Most changes in the Companies Act were made to enhance the level of corporate governance and protect minority shareholders' interests, as a reaction to corporate scandals such as promoters siphoning out funds from companies as in the case of Satyam Computer. The CSR requirement was meant to ensure companies' growth is linked to sustainable development.

But the government seems to have gone too far with its concerns. Companies had raised many concerns and sought many clarifications of the draft rules, most of which were overlooked when the final rules were issued, they complain. Their last hope is that the

new Finance and Corporate Affairs Minister, Arun Jaitley, will postpone implementation of the law for a year and review each rule before it is implemented. ♦

@tinaedwin

THE NARENDRA MODI GOVERNMENT NEEDS TO UPDATE MANY RULES AND REGULATIONS TO CREATE JOBS, ELIMINATE CORRUPTION AND PROMOTE ECONOMIC GROWTH.

By TEAM BT

Narendra Modi will not need economists to decode the stubbornly high rate of inflation. An action plan on tackling food inflation, submitted to former prime minister Manmohan Singh three years ago, is perhaps still lying in a dusty corner of the Prime Minister's Office. The country's 15th prime minister now has to walk the talk as inflation tops the agenda of the new BJP-led government. The action plan, with close to two dozen recommendations, also had a suggestion for reforming the archaic Agriculture Produce Marketing Committee (APMC) Act.

This Act, dating back to the 1960s, allows farmers to sell their produce through licensed middlemen in APMC mandis in their state. The produce moves from the broker to wholesalers, traders and finally retail consumers. "That's where farmers have a short hand, because APMC markets are captured by these big commission agents and they are charging hell for a five-minute job of auction," says Ashok Gulati, chair professor for agri-





More on the APMC Act's shortcomings at
www.businesstoday.in/apmc-shortcomings

culture at the Indian Council for Research on International Economic Relations. The agents generally take around 15 per cent commission, though the norm is about six per cent at the Azadpur mandi in Delhi and eight per cent in the Vashi market in Navi Mumbai.

Sometimes, a few middlemen create a cartel of sorts to jack up prices. This was evident when onion prices skyrocketed to ₹100 a kilo just before assembly elections in four states last December. The intention behind the APMC Act was to create a market for farmers to sell their produce. However, that aim is defeated, as traders and middlemen make big money. One could even argue that the runaway inflation of recent years is partly caused by the APMC Act. Some claim that overhauling the entire Act would be too drastic, but if, as a first step, the government removed fruits and vegetables from its purview, it would go a long way in taming inflation.

The Model APMC Act, which the central government recommended to the states in 2003, already lays down a good roadmap, having identified the shortcomings of the prevailing agricultural marketing system. But its adoption and implementation have fallen short of expectations. "One of the reasons for the lukewarm response

APMC ACT, 1960

Under the Agriculture Produce Marketing Committee Act, farmers can sell only through APMC markets, where a cartel of sorts is created, resulting in unfair pricing

Industries impacted include agribusiness, food processing and modern retail

Removing fruits and vegetables from the APMC's purview could be the first step towards abolishing the Act

APPRENTICESHIP ACT, 1961

Companies are required to absorb a percentage of the apprentices they train, which places an unnecessary obligation on businesses

Industries impacted include IT, ITeS, engineering and infrastructure

Can hire and train more people if this regulation is junked



S. Ramadorai
 Chairman/ National
 Skill Development
 Corporation

We need to simplify the Apprenticeship Act to ensure... youth are not exploited and companies are not locked into guaranteeing employment



ILLUSTRATION BY AJAY THAKUR

**BUILDING & OTHER
 CONSTRUCTION
 WORKERS ACT**

**INDUSTRIAL
 DISPUTES ACT**

APMC ACT

AIRCRAFT ACT



INDUSTRIAL DISPUTES ACT, 1947

Companies that employ more than 100 workers need to seek permission from the government before firing even a single worker

All manufacturing companies are subject to this law

A change would give companies greater flexibility in hiring and firing, which could improve productivity and efficiency



Venkatesh Gopalkrishnan
CIO/ Shapoorji Pallonji
Real Estate

If the initial town planning process is done properly, the approval process for a developer should be fast

ENVIRONMENT PROTECTION ACT, 1986

Environment clearances are required for construction of a new project, expansion and modernisation

Industries affected include real estate and construction

This regulation duplicates the process for a builder, as environment approvals are already taken when the government clears town planning. Removal would cut down on delays and corruption



SHEKHAR GHOSH

Legislative overhang: A housing complex being built by ATS Infra at Noida, UP

from many states is the conflict of interest that exists when the market operator – the state Mandi Board – and the regulator (the state government's agriculture marketing department) are the same," says S. Sivakumar, Chief Executive (Agri) at ITC Ltd and Chairman of the Confederation of Indian Industry's (CII's) National Council on Agriculture. Early this year, even Congress Vice President Rahul Gandhi had urged a dozen Congress-ruled states to remove fruits and vegetables from the purview of the APMC Act.

Jobs for Everyone

In its manifesto, the BJP has said it plans to create 250 million jobs over the next 10 years. It plans to do this by encouraging fresh investment, clearing pending projects and promoting skill development, among other things. However, it will face roadblocks in the form of outdated rules and regulations, especially for small and medium enterprises (SMEs), and the unorganised sector.

For instance, the Industrial Disputes Act, 1947, requires companies that employ 100 or more workers seek government permission to fire even a single worker. The regulations also bar companies from downsizing their workforce in a hasty manner. This encourages SMEs to stay small, at least on paper, employing less than 100 permanent workers, making do with contract labour.

In India, labour laws preceded industrialisation. "So they are archaic," says B.C. Prabhakar, a director at software major Wipro. "The practical aspects of running an industry are not addressed by our labour laws."

The regulations for shutting down a factory are cumbersome, too. Entrepreneurs must seek government permission three months in advance. Prabhakar says: "This is driving me not to take permanent employees, but to use contract labour. The Act is not applicable to contract labour. This is hampering investment."

BUILDING & OTHER CONSTRUCTION WORKERS ACT, 1996

Companies are subject to a large number of labour compliance requirements, ranging from welfare to safety to technical knowledge

Industries affected include real estate and construction

The labour commissioner has the power to harass a company for even minor offences. A simpler compliance checklist is needed



B.C. Prabhakar
Director/ Wipro

The laws are archaic. The practical aspects of running an industry are not addressed by our labour laws

Many industrialists, as well as the CII, have argued that restrictions on exit deter entry. If companies cannot fire unproductive employees, they won't look for better ones. This archaic regulation has implications for the country's manufacturing competitiveness. India has a target of creating 100 million manufacturing jobs by 2022.

The law doesn't encourage companies to train people either. The Apprenticeship Act, 1961, requires that a

company absorb a minimum percentage of the people it trains. This deters companies from taking on more apprentices, they are then obligated to hire them irrespective of vacancies and requirements. Oddly, the Act does not specify the actual percentage of trainees companies should absorb. "The unstated mandate makes many companies nervous about even reaching out to apprentices," says Rituparna Chakraborty, Co-Founder and Senior Vice

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DRUGS & COSMETICS ACT, 1940

Need to address industry concerns over slow grant of approvals for clinical trials and other permissions

Industries impacted are pharmaceuticals and health care

A simplified procedure would encourage drug discovery



Satish Reddy
President/ IPA &
Chairman/ Dr Reddy's
Laboratories

There is a clear slowdown in the process of granting approvals for new drugs. There is a lot of angst as far as clinical trials are concerned

President, TeamLease, a human resource services company.

A small change in the Act would encourage companies to take on more apprentices. Those who are not absorbed by the company that trains them would at least gain some work experience and be more employable. S. Ramadorai, Chairman of the National Skill Development Corporation and National Skill Development Agency, says India urgently needs to look at simplifying the Act to ensure twin objectives: one, that youth are protected from exploitation and not given low salaries in the guise of apprenticeship; two, that companies are not locked into guaranteeing employment and their business cycles are taken into account.

Amending the Inter-State Migrant Workman Act, 1979, would make it more effective in addressing the problems of migrant labour in India. The purpose of the Act was to protect the rights of migrant workers by specifying minimum wages. Today, 25 to 35 per cent of labourers are migrants. Take, for example, workers who migrate from Bihar to Mumbai or locations in Gujarat, or from the Northeast to Bangalore to work in industries such as health care and tourism. The Act does not specify skill sets, but lays down the minimum wage. "The governing policy and regulatory

ecosystem is inadequate, leading to exploitation of workers by the private sector," says R. Raghuttama Rao, MD, ICRA Management Consulting Services.

Cutting Down Corruption

Black money and corruption is on the new government's priority list. During the UPA regime, corruption in 2G telecom spectrum allocation and granting of coal mining rights was mainly due to the lack of policy or clarity in the policy. Many have argued that the unnecessary rules and regulations outlined in some laws are the breeding ground of black money and corruption.

Real estate is an industry associated with these problems, so that projects get cleared by government agencies. Take for instance, the Environment Protection Act, 1986. The rules require builders to take environment clearances for a new project, for expansion and redevelopment. This duplicates the process for builders, as environment approvals are taken at the initial stages, when the state clears the town or city plan. A city plan broadly outlines the areas reserved for residential, industrial, non-polluting industry, empty spaces and green zoning. "If the initial town planning process is done properly, the approval process for a developer should be fast," says Venkatesh Gopalkrishnan, Chief Investment Officer, Shapoorji Pallonji Real Estate. The environment ministry's approval takes six months to a year. "The duplication in guidelines has created a window for corruption," says a developer on condition of anonymity.

As with environmental issues, there are multiple layers for clearance at various stages under the Land Acquisition Act, 2013. Environment and social impact studies are mandatory for new projects. "This increases the time for acquisition of land for projects," says Rao of ICRA Management Consulting.

Some say the Modi government may use Gujarat's new land acquisition policy as a model to amend the Land Acquisition Act 2013. Rao adds: "Gujarat has probably one of the better land policies."

Another law, the Building and Other Construction Workers Act, 1996, is also a hurdle. It applies to unorganised labour in the building industry (labour in manufacturing comes under the Factories Act). The law requires employers to ensure welfare measures and safety precautions, and also specifies technical aspects regarding tools, machines, and medical facilities, among other things. This Act gives the labour commissioner wide-ranging powers to ask for compliance and harass employers for even minor violations.

Modi, as chief minister of Gujarat, had often talked of

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LABOURERS IN THE
COUNTRY ARE
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RECOVERY OF DEBTS DUE TO BANKS AND FINANCIAL INSTITUTIONS ACT, 1993**Procedures under the SARFAESI Act, 2002, and Debt Recovery Tribunals are time-consuming****Industries impacted are banks and financial services****Urgent need for additional DRTs and special benches in high courts to deal with defaulters****Raghuram Rajan,**
Governor/ Reserve Bank
of India**We could wish for a more effective judicial process... but while we wait, we have to improve the functioning of what we have**

24X7 power in his state. Private-sector power companies ramped up capacity in the last decade, as chief minister Modi eased the process for the industry. As Prime Minister, he is now expected to boost the power sector, which is struggling due to insufficient coal supply.

Experts say that encouraging competition in power distribution would make life easier for consumers by lowering electricity charges. Currently, the wire (transmission lines from transformers to households) and retail power distribution businesses are handled by a single distribution company, as the licence for these is a composite one under the Electricity Act, 2003. If segregated, the wire business would serve as a common carrier for all distributors, and the retail business could be opened to multiple companies in the same area. This would let consumers choose their power distributor based on price and service quality. A good example of such a system is the telecom industry, where the consumer does not care which tower transmits the signals.

In banking, rising bad loans are choking the sector's balance sheet, because of delays in seizing assets as promoters or entrepreneurs go to court to halt debt recovery. Often, suggestions to improve laws comes from within an industry, but in the case of banking, Raghuram Rajan, Governor of the Reserve Bank of India (RBI), has talked about overhauling the legal infrastructure for bad assets. "We could wish for a more effective judicial process or a better bankruptcy system, but while we await that, we have to improve the functioning of what we have," Rajan said soon after taking over as Governor.

A recent RBI working paper suggested changes in legal infrastructure such as additional debt recovery tribunals (DRTs), a special cadre of officers for DRTs, a separate bench for cases under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, (SARFAESI) and the setting up of a special bench for corporate cases in every high

court. It is well known that infrastructure is a major issue for the functioning of DRTs. "Most DRTs are sparsely staffed, with matters getting adjourned on a regular basis due to the absence of officers to conduct proceedings," says Cyril Shroff, Managing Partner at legal firm Amarchand & Mangaldas & Suresh A. Shroff & Co.

Another industry hoping for a boost from the Modi government is pharmaceuticals. The BJP's manifesto touches on intellectual property issues, and there is much anticipation of some action by him. The industry is heavily dependent on the US, a country with which Modi's ties have been somewhat strained in the past. Indian pharma has long argued that big pharma companies in the US are lobbying their government to put pressure on India to amend its intellectual property laws. For instance, Pharmaceutical Research and Manufacturers of America, an association of major US drug companies, has pointed to "India's ulterior motive to promote domestic industry and force localisation of capital" in a statement before the US International Trade Commission on January 30 this year.

The other major set of issues for Indian pharma companies is related to the domestic environment, which they say is less and less conducive to research and innovation. Take the Drugs & Cosmetics Act, 1940. A bill to amend it is pending before the Rajya Sabha since August last year. The industry wants provisions that will address its concerns about the slow grant of approvals for clinical trials to launch new drugs, among other things. Suneela Thatte, President of the Indian Society for Clinical Research, points out: "Going by health ministry figures, only 13 approvals were given for clinical trials last year, and this means, in a sense, we have gone back to the levels at which we were back in 2005."

A circular graphic with a thick black border and a chain attached to the bottom right. Inside the circle, the text reads: "ONLY 13 APPROVALS WERE GIVEN FOR CLINICAL TRIALS LAST YEAR".



More on the Aircraft Act's shortcomings at
www.businesstoday.in/aviation-shortcomings

Satish Reddy, Chairman of drug maker Dr Reddy's Labs and President of the Indian Pharmaceutical Alliance, an industry body, says: "There is a clear slowdown in the process of granting approvals for new drugs. As for clinical trials, there is a lot of angst as far as the industry is concerned, and some companies are shifting clinical trials outside the country. This is a big concern. The industry also needs greater clarity on the drug pricing policy."

Need for New Acts

Tweaking or rewriting existing laws won't be enough. A couple of new Acts are expected to come up before the Modi government for approval. One is a law that would make the Forward Markets Commission an independent regulator for commodities markets. Another is to create a real estate regulatory authority at the state level is also pending. The previous government initiated major civil aviation reforms, such as the setting up of a Civil Aviation Authority (CAA) to replace the Director General of Civil Aviation (DGCA) by enacting a new law. Aviation reform is even more important since the US Federal Aviation Authority downgraded India's safety rating in January. "It is important to expedite the setting up of the CAA," says Peeyush Naidu, Director at Deloitte India.

Many experts consider aviation over-regulated, with excessive concentration of powers in the DGCA, through which the central government exercises its authority. Amber Dubey, Partner at KPMG India, says commercial airlines should be allowed to fly routes that are commercially viable for them, and not those dictated by guidelines. "The government must move out of too much interference in issuing licences for pilots and also aircraft procurement, as some procedures create bottlenecks and result in delays," he says.

Some laws that affect sunrise industries need to be revised. For example, the fast-growing direct-to-home (DTH) industry needs better laws. "Broadcasting needs a new regulator and new legislation," says Jawahar Goel, Managing Director of Dish TV, the country's first DTH player. Currently, the Telecom Regulatory Authority of India (TRAI) is the intermediary authority for licensing and regulation. Goel says the sheer volume of telecommunications issues with TRAI makes a strong case for a separate authority for broadcasting. "Broadcasting isn't getting enough mind-space at TRAI," he says.

DTH guidelines could do with greater clarity. Currently, DTH licences are granted for 10 years, with no provision for extension. If a company's licence is not renewed, it impacts its entire business model. Dish TV, which has invested hugely in its business and completed 10 years, got a one-year extension last year. TRAI is expected to submit a set of guidelines soon to Modi's cabinet, after which a timeframe for renewal will be drawn up.

INDIAN WIRELESS TELEGRAPHY ACT, 1933

Direct-to-Home licences are valid for 10 years, without any provision for long extension

Industries impacted are DTH, media and entertainment

Capital-intensive DTH requires regulatory clarity, with renewal for the longer term



Jawahar Goel
 Founder/ Dish TV

Broadcasting needs a new regulator and new legislation. It is not getting enough mind space at TRAI

AIRCRAFT ACT, 1934

The office of the Director General of Civil Aviation gives little flexibility to airlines to chart out commercially viable operations plans

Industries impacted are civil aviation, infrastructure and tourism

Setting a civil aviation authority to replace the DGCA would give airlines greater freedom from government control

Clearly, there is enough to keep Modi and his government busy for the next five years. ♦

INPUTS FROM ANAND ADHIKARI, ARPITA MUKHERJEE, MANISHA SINGHAL, SHAMNI PANDE, GOUTAM DAS, SUPROTIP GHOSH AND E. KUMAR SHARMA

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WHAT LIES IN STORE

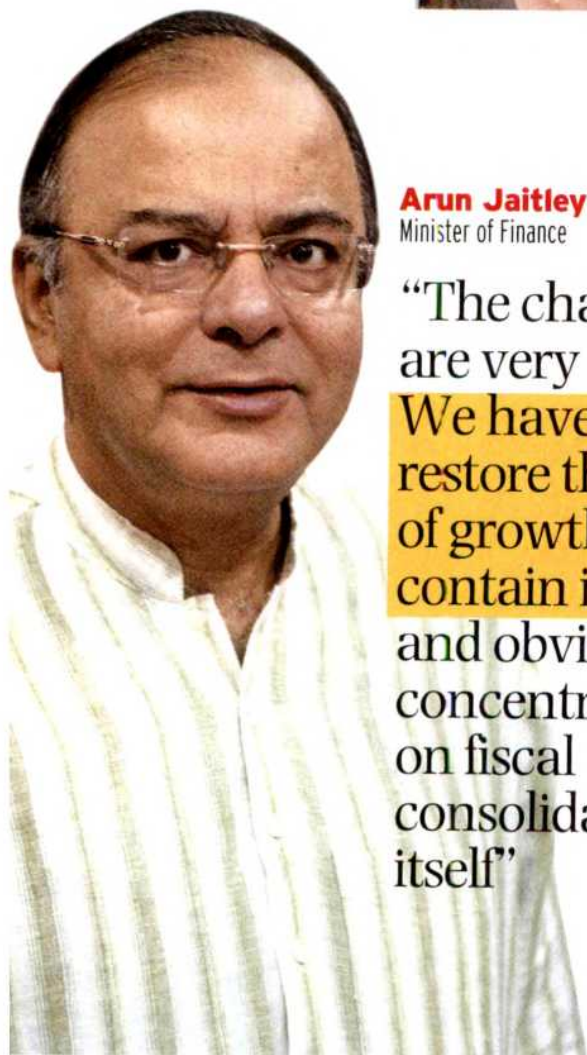
KEY PRONOUNCEMENTS OF SOME OF THE NEWLY APPOINTED MINISTERS



Nirmala Sitharaman

Minister of State (Independent Charge),
Commerce & Industry

"We have explained about FDI in multi-brand retail. It is probably not best opened up now because medium and small sized traders and small farmers have not been adequately empowered... if you open up the floodgates of FDI, it may affect them"



Arun Jaitley

Minister of Finance

"The challenges are very obvious. We have to restore the pace of growth, contain inflation, and obviously concentrate on fiscal consolidation itself"

Ravi Shankar Prasad

Minister of Law

"Retrospectivity in law should normally be avoided, as it is very evident that India needs foreign investment"



Piyush Goyal

Minister of State (Independent Charge), Power

"The immediate task is to bring in quality and adequate power to all. Gujarat has some great examples of energy security and accessibility, especially in solar power. We will try to take these to the whole nation"





Prakash Javadekar

Minister of State (Independent Charge),
Environment, Forests and Climate Change

"We will ensure that environment becomes a public movement, and there is more convergence between environment and growth"



Nitin Gadkari

Minister of Road Transport & Highways

"It is my dream to restore the sacred Ganga's glory and utilise this ancient river's full potential by using it as a waterway from Gangotri to Kanpur and Kanpur to Patna"

Radha Mohan Singh

Minister of Agriculture

"We will launch a Prime Minister's Gramin Sinchayi Yojana to expand irrigation coverage and reduce dependence on monsoons. We will launch an agricultural income insurance scheme to provide compensation in case of crop damage arising out of factors like drought"



M. Venkaiah Naidu

Minister of Urban Development,
Housing and Poverty Alleviation

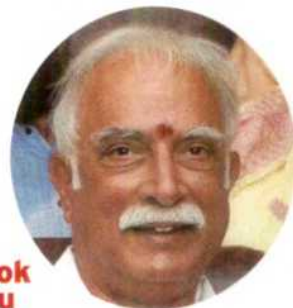
"Housing is my passion. My priority will be to ensure housing for all by 2020 and to reduce interest rate on home loans"



Ram Vilas Paswan

Minister of Consumer Affairs, Food and Public Distribution

"Streamlining the working of FCI and making the public distribution system more effective will be a priority"



Pusapati Ashok Gajapati Raju

Minister of Civil Aviation

"I will discuss Air India's situation with the prime minister. We will have to analyse the reasons for the losses. Is it competition or something else?"

COVER STORY Labour Relations

SUMMER

OF

THE MANUFACTURING SECTOR CONTINUES
TO STRUGGLE WITH LABOUR STRIFE.
IT IS TIME FOR SOME SOUL SEARCHING.

DISCONTENT

VIVAN MEHRA



By GOUTAM DAS

The new face of Karnataka's industrial rebellion is not an easy man to find. Prasanna Kumar's phone is incessantly busy, and when he does answer, he is either waiting to meet the chief minister or hobnobbing with the labour commissioner. Kumar has been busy otherwise. In the past few months he has been accused at different points of instigating workers, threatening supervisors, and halting the India operations of the world's largest automaker, Toyota.

Kumar is 33 and heads the employees union at Toyota Kirloskar Motor Pvt Ltd, the Japanese company's India joint venture. He has worked here for 14 years. Almost single-handedly, he ensured that for several days 4,000-odd employees stayed out of two plants the company runs in Karnataka. Between February 10 and March 15, he led the disruption of shop-floor operations at least 32 times, resulting in a production loss of 1,988 vehicles, according to the company's lockout notice.

It all began with workers taking one-hour-long toilet breaks. That soon spiralled into stoppages of production lines and full-day strikes. Finished vehicles were scratched with key chains and supervisors abused. The company declared a lockout on March 16 as it anticipated "serious riotous acts" and "physical violence". It subsequently lifted the lockout.

Kumar, seen by many to be politically ambitious, was born and raised in the toy town of Channapatna where his family grows ragi and rice. He wasn't interested in the family occupation and wanted to work in industry instead. He joined Toyota soon after graduating from an Industrial Training Institute (ITI). His thin built and calm exterior masks his aggressive posturing. "[We want] salary hikes of ₹4,000 a month for all workers," he says, wearing a pair of blue jeans and matching blue shirt with sleeves rolled up when *Business Today* met with him at a labour office in Bangalore in March. The company was willing to pay ₹3,100. It could not pay more, executives insisted, because business had slumped – the company was using less than half its production capacity of 3,10,000 vehicles a year. The union later agreed to the compa-

ny's offer but Kumar had a new demand. He wanted Toyota to take back 30 workers who had been suspended for indiscipline. The workers have now returned to work.

"His aim is certainly not pro-company. I am not even sure it is pro-worker," said an exasperated Shekar Viswanathan, Vice Chairman and Director at Toyota Kirloskar Motor, in March. "Why are we having this problem? Because of a small group of chaps who don't believe in working, who are societal misfits," he fumed, sitting at the calmer chimes of the Bangalore Golf Club, 40 kilometers away from the stress-filled air of Bidadi, where the plants are located.

Toyota's problem is a manifestation of a much larger issue. Even after nearly two years since automaker Maruti Suzuki's Manesar labour strife, where a management representative was charred to death, the manufacturing sector has been slow to learn its lessons. A sprinkling of new strikes in South India has followed the lull the North has seen after the Manesar blow-up. The manufacturing sector is still grappling with many of the same issues that plagued Maruti, such as contract labourers and their pay scales. Wage negotiations remain tricky as ever and disciplinary measures appear like going to hell in a handbasket.

INDUSTRIAL UNITS IMPACTED DUE TO

JAN-NOV 2011

Strikes	183
Lockouts	185
Total	368

JAN-NOV 2012

Strikes	237
Lockouts	176
Total	413

JAN-NOV 2013

Strikes	134
Lockouts	15
Total	149

Source: Ministry of Labour

The manufacturing sector is still grappling with many of the same issues that plagued Maruti, such as contract labourers and their pay scales



Interview with Toyota Kirloskar's Shekar Viswanathan at www.businessday.in/toyota-viswanathan

The lowering of emphasis in the manufacturing sector on HR may have resulted in supervisors not being trained enough to handle irate labourers

WORKERS AFFECTED AS A RESULT OF

JAN-NOV 2011
 Strikes **585,273**
 Lockouts **83,834**
 Total **669,107**

JAN-NOV 2012
 Strikes **10,20,858**
 Lockouts **78,452**
 Total **10,99,310**

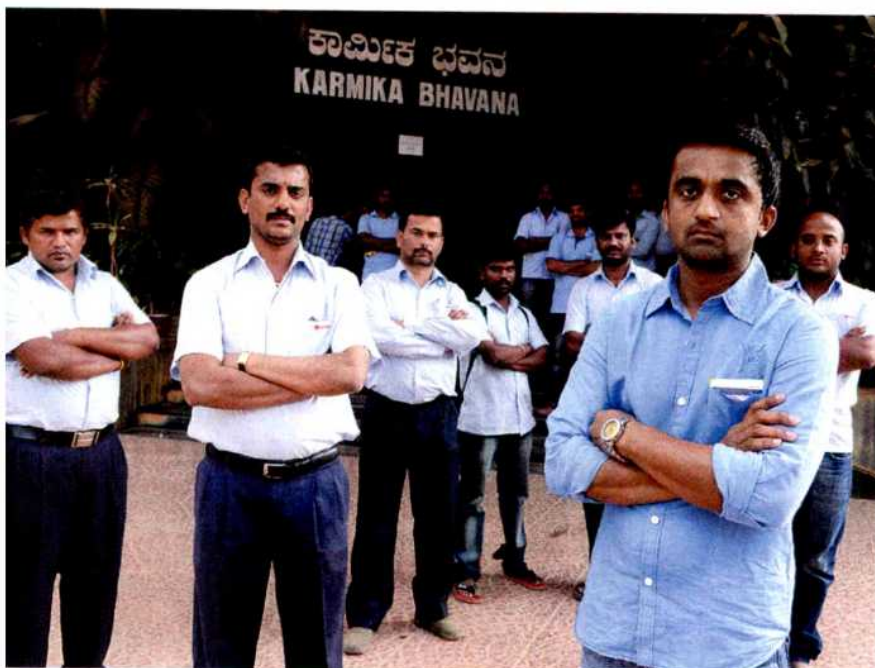
JAN-NOV 2013
 Strikes **714,676**
 Lockouts **4,430**
 Total **719,106**

Source: Ministry of Labour

While labour unrest at automakers has remained in focus, companies in other sectors also have faced similar problems. Take, for instance, Parle Products' Bangalore factory. The plant was set up in 2000 with an investment of ₹70 crore and made KrackJack, Hide & Seek, and Parle G biscuits. Between 2011, when labour strife started, and 2013, when Parle decided to shut down operations, the factory functioned for just three-and-a-half months. Workers halted work after an employee was suspended for abusing a personnel officer. In the prolonged strife that followed, workers resorted to a stay-in strike. They damaged machinery, set fire to corrugated boxes, spilled harmful chemicals on the floor, kept inflammable film roles in front of doors and tinkered with electrical wiring that could have caused a serious fire disaster, according to the application Parle filed with the Karnataka government to close the plant.

Many more unions of smaller companies are resorting to strikes and sabotage to get their message across. This March itself, three factories in Karnataka declared lockouts. Besides Toyota, lockouts were declared in textile processing company Bombay Rayon Fashions and auto-component maker Stump Scheule Somappa. The latter declared a lockout after agitating workmen tinkered with nitrogen and liquefied petroleum gas cylinders used to run furnaces. Strikes at agri-equipment maker Fowler Westrup and at beverages giant Coca-Cola were recently resolved. In the western region, near Pune, Bajaj Auto's workers threatened a strike demanding wage hikes, equity shares at concessional rates, and revocation of suspension of 21 workers and termination of two employees. They postponed the strike after the management did not budge.

To be sure, India is not the only country where strikes are rampant. There is growing dissent in China, for instance. According to the China Labour Bulletin, an organisation that promotes workers' rights, there were 470 strikes and protests by factory workers in China between June 2011 and December 2013. But India does have a high per-



Tools Down: Prasanna Kumar (right), union leader at Toyota Kirloskar Motor, with a group of workers. Kumar led the disruption of work at the two plants of Toyota in Karnataka at least 32 times between Feb 10 and March 15

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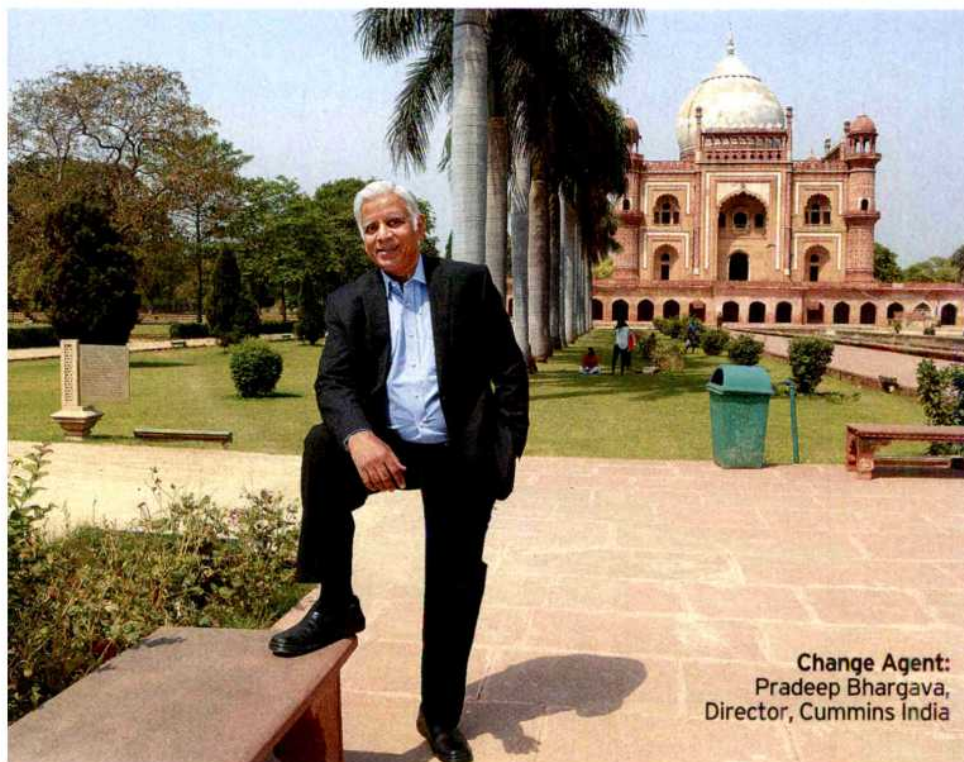
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SHEKHAR GHOSH

**VIOLATIONS
UNDER CONTRACT
LABOUR ACT**

2010/11
No. of irregularities **148,731**
Convictions **3,643**

2011/12
No. of irregularities **192,418**
Convictions **4,962**

2012/13
No. of irregularities **148,838**
Convictions **28,713**

2013/14
No. of irregularities **86,749**
Convictions **1,626**

Source: Reply to Lok Sabha question

"We have not only been unfair to workers but also missed an opportunity to unleash their potential"

centage of strikes when compared to other countries. According to the International Labour Organization's (ILO) strikes and lockouts database, in 2010, when the last comparable numbers are available, India at 240 manufacturing strikes was second only to Spain (399 strikes). The ILO does not have data for China.

So why is the Indian industry unable to get its arms around the problem? Should they just blame staff unions with ambitious young leaders who thrive on greed? There are no easy answers. It is often a mesh of many issues.

HR vs IR

In the 1990s, the Human Resources (HR) department in a company held a prominent place. The decade after, HR became a backbencher, says Prabhat Chaturvedi, former secretary at the central government's labour and employment department. "HR was not an attractive subject in management schools. Finance and marketing were seen to be more important. This resulted in a breakage of dialogue between workers and management, which always used to happen in India after Independence. This is one of the reasons why we see problems even in industries where

the wage levels are good," he says.

At Toyota, for instance, a permanent workman who is an ITI graduate draws ₹26,100 at joining, or ₹3.13 lakh a year. In comparison, an engineer in a top-tier software services company earns about ₹3.16 lakh in the first year. The software services industry, however, has a greater focus on world-class HR practices – the sector has remained union-free thus far.

The lowering of emphasis in the manufacturing sector on HR, particularly industrial relations (IR), may have resulted in frontline supervisors of companies not being trained enough to handle irate labourers. It is a delicate power game and can't be leant overnight. "The union has to be seen by the workforce to have won. That is the crucial part in the relationship. Experienced management will give the union a face-saver," says Sanjay Singh, Director of Human Resources and Administration at private-sector oil exploration company Cairn India. Singh's learning in handling labourers came from tobacco-to-hotels giant ITC where he previously worked.

So, the experienced management of a company always suspends more workers than needed in the event of a

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strike, eventually agreeing to take back most of them. That's a face saver. After the 2005 labour violence at Honda Motors and Scooters India's Manesar factory, the company suspended about 60 permanent workers and terminated four. Most of them were later taken back in the company, says Suresh Gaur, who was among those terminated and taken back. He is now the president of All India Trade Union Congress (AITUC), Gurgaon. The company also dropped practices labourers found disgusting, like maintaining a register near the toilet – all labourers had to enter entry and exit time for toilet breaks.

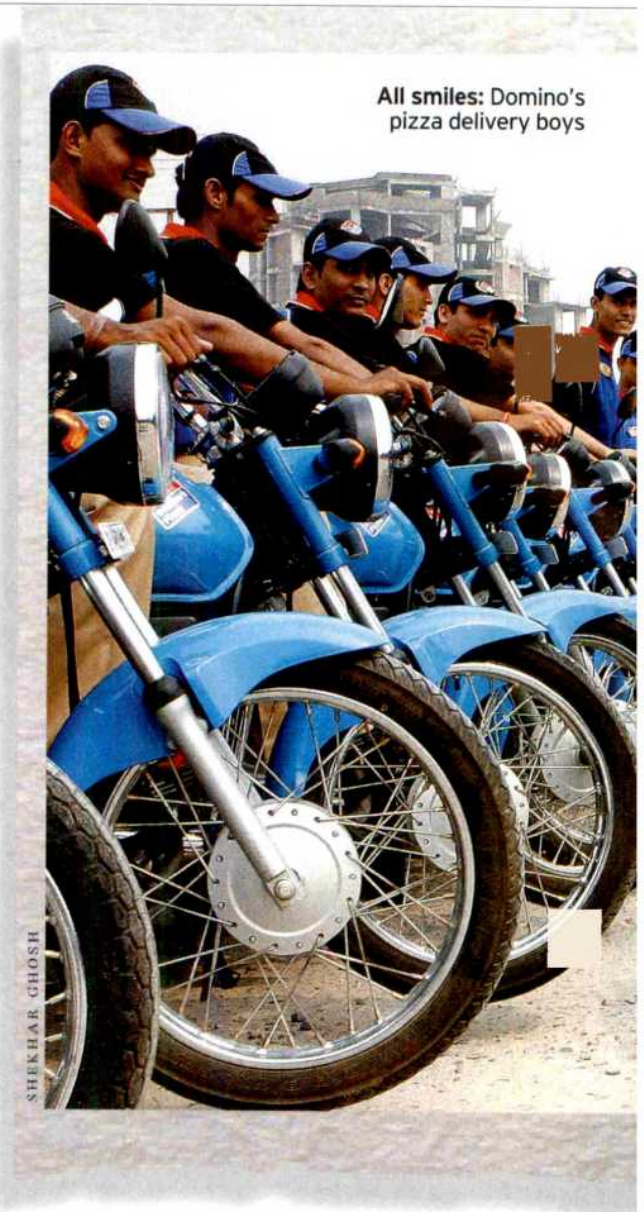
Perhaps, the manufacturing sector made a mistake in making a distinction between HR and IR. Companies categorise white collar as HR and blue collar as IR. "The whole perspective has been shareholders' interest, customers' interest, talent upgradation. We treat the *kamgars* [workers] on the shop floor as factors of production," says Pradeep Bhargava, Director at Pune-based Cummins India, who has spent 40 years in manufacturing. "We have not only been unfair to workers but have also missed an opportunity to unleash their potential," says Bhargava.

Manufacturing companies have mostly been unfair to contract workers, who earn much less than permanent workers and enjoy fewer benefits. The ratio of regular versus contract workers was 90:10 until the 1990s. Tables turned by 2000 with the ratio becoming 30:70, says former labour secretary Chaturvedi, known to be a pro-labour official. "The model reversed. For the same work on the shop floor, a regular worker can be paid ₹30,000 while a contract worker is paid ₹7,000-8,000," he says. "This is exploitation of human resource. It was done for profit making. How long will the worker tolerate this?"

Marriage without divorce

At the heart of Maruti's Manesar unrest in 2012 were contract labourers, and the company eventually did away with such workers. However, almost all other manufacturing companies continue to use contract labourers citing the government's "no exit" policy.

The Industrial Disputes Act, 1947, mandates companies employing 100 or more workers to seek prior permission of the government to lay off even a single worker. Chapter V B of the Act bars companies from exiting or downsizing quickly. "For retrenchments and closures, I have to seek permission from the government three months in advance. That is driving me not to take permanent employees and instead make do with contract labour. The Act is not applicable to contract labour," says B.C.



All smiles: Domino's pizza delivery boys

Prabhakar, an advocate who is a director at software giant Wipro and manufacturing company 3M India.

If there is one labour law reform the industry is crying for, it is this chapter. Since it is difficult to hand over anyone their walking papers, disciplining the workforce has become an arduous task. That is working against India's competitiveness, feels Surinder Kapur, Founder-Chairman of auto-parts maker Sona Group. "Misconduct has to be dealt with. An employer is looking for discipline in the workforce," he says. "What has happened in Japan, Germany or Korea, which are today excellent manufactur-

India's labour productivity was \$3,067 in 2013, versus Brazil's \$11,761 and China's \$6,298

LESSONS FROM PIZZA MAKERS

Everybody loves a pizza, including the honchos running manufacturing companies. But is there something the manufacturing sector can learn from pizza makers?

It would seem there is little in common between manufacturing companies and the quick-service restaurant industry, particularly Jubilant FoodWorks that holds the master franchise for Domino's Pizza in India. Think again.

In both sectors, the nature of work is repetitive, operating procedures are standardized, and precise output and timing are critical. Both also need just-in-time inventory management, offer a tough physical work environment and hire workers with moderate education levels. Sure, there are differences as well. Baking a pizza is simpler than operating a furnace; and the pizza delivery boy is more empowered than a factory worker. If he delivers the pizza late, he can decide whether to make it free.

Nevertheless, there is a lot manufacturing companies can learn from Domino's management practices. Domino's employs more than 20,000 people — all directly. But it is easier to manage them because they are all split into smaller groups — one store typically has 25 employees. This, according to Venkatraman Girish, Senior Vice President of Human Resources at Jubilant FoodWorks, emphasises the importance of operating in smaller units. Manufacturing companies, he says, perhaps, need to organise workers in smaller work groups where employees realise output, success and failure.

The second lesson is related to identity. All Domino's

employees have a uniform that gives them recognition among their peer groups. That cannot be said of many workers in the manufacturing sector, particularly contract employees. But the most important lesson is perhaps how Domino's has limited class conflicts within its ranks. This is Domino's 19th year in India and many of its senior leaders joined the company at low ranks.

"People at the level of deputy general managers have risen from low ranks, like delivering the pizza. There is no class barrier because a big chunk of managers have come from within and rose up the ranks. Roughly half the manager level staff has risen up the ranks within the company," says Girish.

Everybody in the company is trained to deliver a pizza. Every new employee, whatever level he joins, trains for five days in a restaurant, from taking orders to baking the pizza. The senior management works in a restaurant once a quarter, taking calls from customers and calling them back. On high volume days like December 31, when the highest numbers of pizzas are sold, everybody in the company holes up in restaurants, from morning until close.

If top executives of manufacturing companies dirty their fingers working on machines even once a quarter, that could go a long way in bridging the divide with the "labour class".

ing geographies, is because there is discipline in the workforce. People in India are not achieving what they should because they are not 100 per cent compliant here."

Kapur's point is not hard to see. According to the ILO, India's output per worker was \$3,067 in 2013. In contrast, Brazil's labour productivity during the year stood at \$11,761 and China's at \$6,298. Industry watchers say higher productivity in some countries is because of their choice of technology — a more automated factory would be more productive. Even then, the consensus is Indian workers need to boost their productivity. It is easier said than done considering the current remuneration structure, their living standards, and the way they are treated.

Companies pay contract workers minimum wages as specified by the state government, or a bit above that. But much of it goes as statutory benefits like contributions to the provident fund, leaving little cash in hand. Manish Sabharwal, Chairman of staffing company TeamLease,

calls the benefits regime "mandatory payroll confiscation". For instance, a worker who earns ₹5,500 as monthly wage will end up getting only ₹2,795 in hand, he says. (See *Pockets Still Empty*). "The notion of benefits being over and above salary is science fiction; the savings rate for low-wage employees is not 49 per cent. How can we confiscate that much from their salaries?" Sabharwal asks. The problem created by the huge salary "confiscation" is compounded by the fact that employees care about real wages while employers care about nominal wages, he adds.

A room with no view

With a chunk of his salary gone, where and how does a contract worker live?

Not far from the industrial bustle of old Gurgaon is the village of Dundahera. Narrow roads are dotted with buildings on both sides. The ground floors are let out for commercial activities, mostly neighbourhood retail stores. The



Interview with Sona Group's Surinder Kapoor at www.businesstoday.in/sonagroup-kapoor

VIOLATIONS UNDER MINIMUM WAGES ACT

2010/11
No. of irregularities **305,796**
Convictions **6,124**

2011/12
No. of irregularities **289,525**
Convictions **6,746**

2012/13
No. of irregularities **291,116**
Convictions **4,914**

2013/14
No. of irregularities **195,976**
Convictions **3,047**

Source: Reply to Lok Sabha question



SHEKHAR GHOSH

Living conditions of workers is not a priority for most companies. Can they shy away for long?

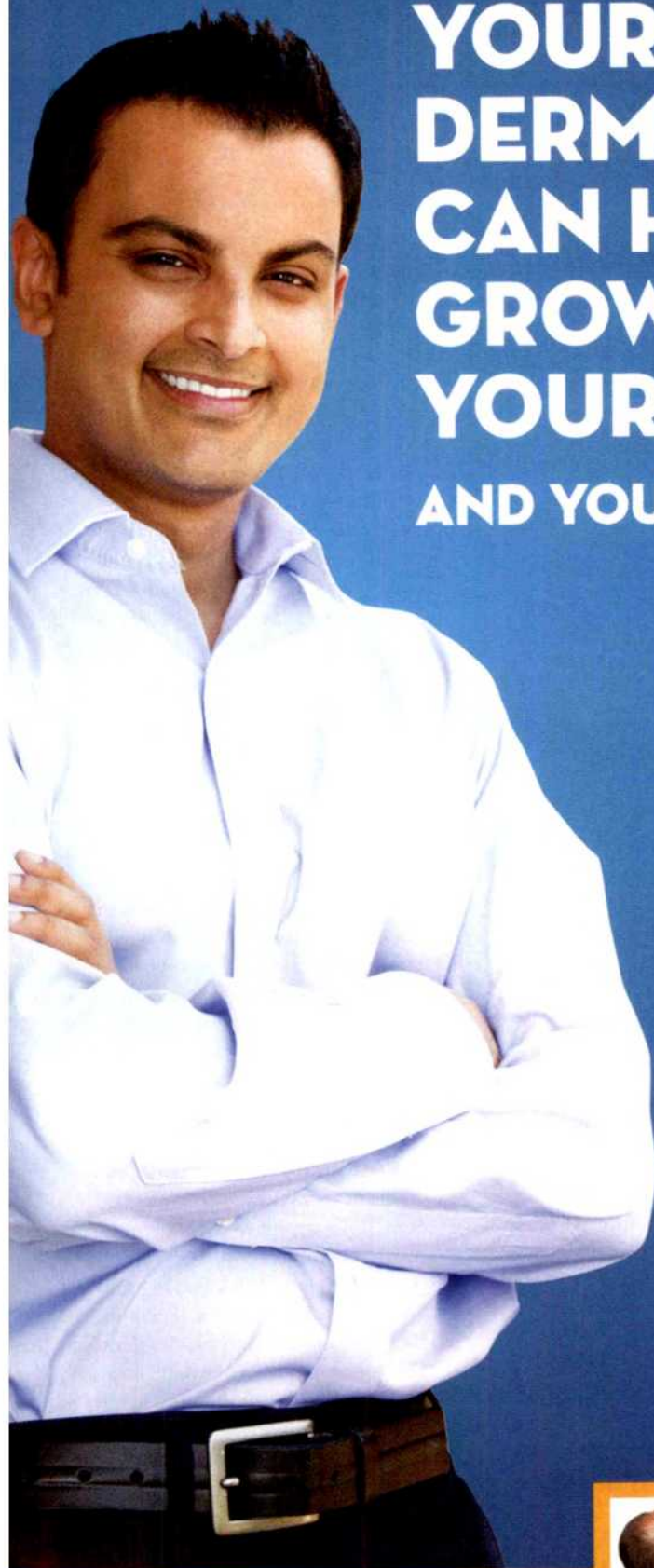
upper floors are rented to contract workers. At 5:30 in the evening, 23-year-old Gajraj Singh arrives on the third floor of one such building, soon after his shift at auto-component maker Napino Auto & Electronics ends, where he works as a contract labourer. Singh is from Aligarh. His floor has seven rooms where 25 workers hole up from different manufacturing companies in the vicinity.

Singh shares his 80 sq.ft. room with two others – each of them pay ₹1,000 as rent. A cot takes up more than half the room; the three often hit the sack together. A tiny window opens to a house with a balcony piled up with cow dung cakes. The building has a buffalo shed on one side and dump yard full of plastics on the other. Singh cannot open the window – his only source of natural light – as two teenaged girls live in the house with the balcony and their suspicious mother screams her lungs out if the window is ever ajar. Singh's floor has one latrine and one bathroom, which the 25 workers share. Flies hover above the latrine pan; it is cleaned once a week. There is a ruckus every day

at 8 a.m. when the workers leave for work. Unable to wait, they bathe outside the bathroom, and all across the floor.

Living conditions of the worker is not a priority for most companies. Gaur of AITUC says companies often dismiss it as "not their headache" whenever housing needs are brought up. But can the industry shy away for long? The National Manufacturing Competitiveness Council, which functions under the central government's Department of Industrial Policy and Promotion, says hygienic living conditions are essential to keeping workers happy and productive. It has mooted worker hostels within textile clusters, an idea that can be replicated in the auto sector. Maruti is thinking of facilitating housing, for instance. *Business Today* had earlier reported that the company was talking to the Haryana government for flexibility in building laws so a large number of high-rise buildings of small units can be constructed. Maruti will help workers get land, finance, architects and contractors.

Industry cannot afford to shy away also because it



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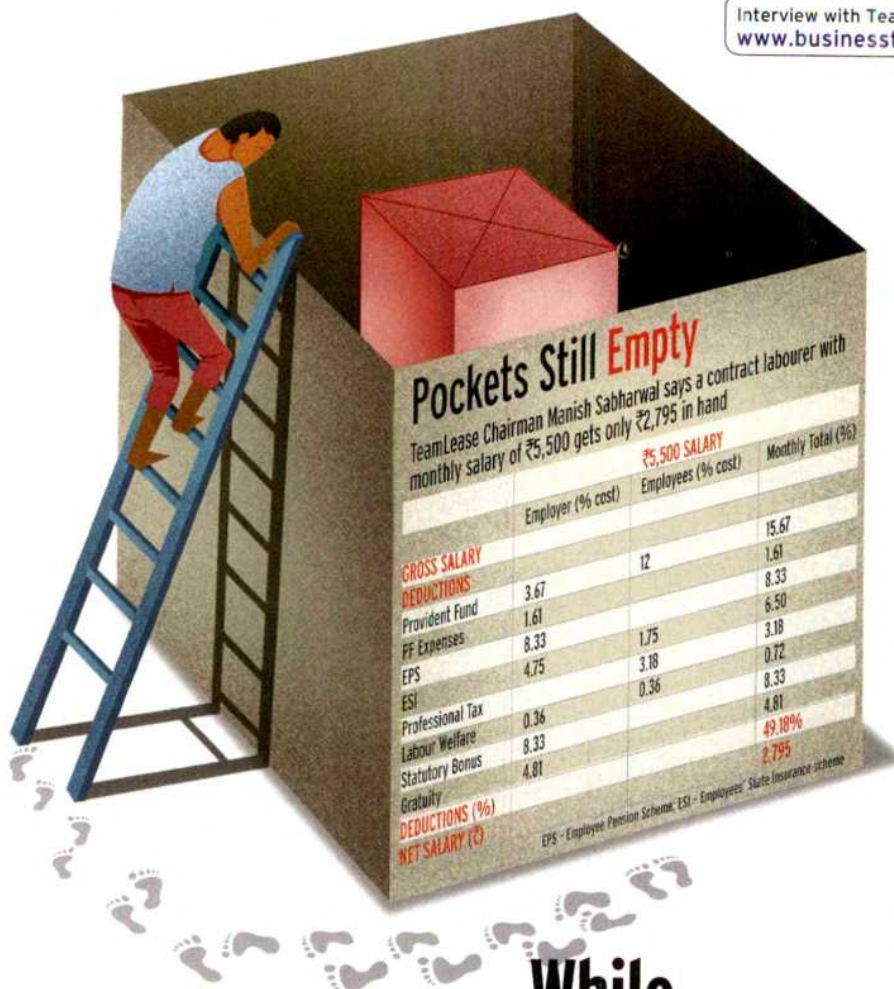
*Results may vary from individual to individual

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 DR. REDDY'S



Interview with TeamLease Chairman Manish Sabharwal at www.businesstoday.in/teamlease-sabharwal



needs a constant stream of labourers from states such as Bihar and Uttar Pradesh to keep its factories humming. Many of these workers today have alternatives. Shaibal Gupta, Founder-Member of the Asian Development Research Institute in Patna, says there is anecdotal evidence of reverse migration – workers returning to their home states from cities. He says the state is drawing in labourers for many construction projects, as the state's annual plan outlay has tripled in six years to ₹34,000 crore in 2013/2014. Besides, a central government programme that promises 100 days of work to rural households has aided reverse migration, Gupta adds. The manufacturing sector needs to change its attitude towards migrant workers if it has to retain talent.

While housing is a vision for the future, a dozen companies – including engineering giant Larsen & Toubro,

While factory workers care about real wages, employers care about nominal wages

Godrej, Bluestar, Tata Steel, Cummins, and Mahindra & Mahindra – want to do the simple things first.

Being Humane

Bhargava of Cummins says he got a “khujli”, a Hindi word that means an itch to do something in this context, after the Maruti incident. “Every time there is an incident in Manesar, in Coimbatore and Bangalore, we wake up and do just about stitching and damage control. We do not introspect,” he says. Now, along with Tata Steel Vice Chairman B. Muthuraman and Rajeev Dubey, HR chief of Mahindra, Bhargava is carrying out a pilot for the lobby group Confederation of Indian Industry to look at small tweaks companies need to make to ensure equitable conduct with contract labourers.

Bhargava is driving what he calls “hygiene” factors – ensuring contract workers get safety training, personal protection equipment, canteen facilities and uniforms. “Contract workers should be given some identity and some sense of dignity. When he leaves home he can't tell his wife he works for a company. This is a simple thing but makes a world of difference,” he says. There is also an effort to bridge the wage gap between a contract employee and the permanent worker at the entry level.

All companies in the pilot have hit the nail on the head. Many companies already had best-in-class HR processes. Mahindra has been following these “hygiene” practices since 2005. In Tata Steel, if a contract worker dies or is permanently disabled at work, the company continues to pay his salary to the family till such time he would have retired. At Cummins, permanent employees can be hired from its pool of temporary workers. Maruti now employs temporary workers whose salaries (₹14,000 per month) are not too low compared to what trainees get (₹17,500).

For the manufacturing sector struggling with labour strife, these ideas are worth spreading. ♦

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Under the Dynamic Leadership of
the Hon'ble Chief Minister of Tamil Nadu

Puratchi Thalaivi

Selvi J Jayalalithaa

Tamil Nadu on the path towards
Peace, Progress and Prosperity
registers splendid achievements
in three years

The people are with me and
I am with the people

Selvi J Jayalalithaa
Chief Minister of Tamil Nadu

- Publication of the final orders of the Cauvery Water Disputes Tribunal in the Gazette of Government of India by relentlessly pursuing the matter in Supreme Court
- Historic judgement of the Supreme Court to raise the height of Mullai Periyar Dam to 142 ft
- Drought relief to farmers for the first time in India
- Marriage assistance of 4 grams gold and upto Rs.50,000 for the poor girls
- 20 kg rice free of cost to provide food security
- Rice at Rs.20 per kg to control open market price
- Enriching the life of the people below poverty line by giving milch cows and goats free of cost for their betterment
- Mixies, grinders and electric fans free of cost
- Free education along with laptop - computers, books, bi-cycles, uniforms, footwear and educational tools to students free of cost
- 33 MoUs with an investment of Rs.31,706 crores and employment for 1.55 lakh persons
- Amma Unavagam to provide food for the poor at low price
- Chief Minister's Solar Powered Green Houses
- Planting of 1.95 crore tree saplings on the occasion of the Hon'ble Chief Minister's Birthday
- In order to prevent take over of NLC by private hands and to protect the welfare of the employees, Public Sector undertakings of Tamil Nadu Government purchased 3.56% of NLC shares



COMPLETION OF THREE YEARS - COMPREHENSIVE GROWTH IN ALL SPHERES



CO-OPERATION, FOOD AND CONSUMER PROTECTION DEPARTMENT



- 20 kg rice free of cost to 1.66 crore families every month
- 35 kg rice free of cost to 19.02 lakh Antyodaya Anna Yojana cardholders
- Rice at Rs.20 per kg to control open market prices
- Mobile Fair Price Shops to serve the people living in remote and far flung areas
- Pongal gift packs to 1.84 crore ration cardholders at a cost of Rs. 281 crores
- Farm fresh consumer outlets for providing vegetables at fair Price
- Rs.82.59 crores crop loan for horticultural crop farming
- 7% interest subsidy to farmers as incentive for repayment of their crop loan

SPECIAL PROGRAMME IMPLEMENTATION DEPARTMENT



- Fans, mixies and grinders free of cost to 89.84 lakh families at a cost of Rs.4,380.20 crores
- Laptop computers free of cost to 16.18 lakh students at a cost of Rs.4,265.44 crores

TAMIL DEVELOPMENT DEPARTMENT

- 1st day of Chithirai restored as Tamil New Year Day as per tradition
- Master Plan Complex for World Tamil Sangam, Madurai at a cost of Rs.25 crores
- 'Chief Minister's Tamil Software Award' for development of Tamil Software
- Kapilar, U.Ve.Sa, Kambar, G.U. Pope, Umarupulavar and Sollin Selver Awards
- 'Tamilthai Award' for the best Tamil Organisation
- Celebration of Birth Anniversary for Dr.Robert Caldwell as Government function
- Translation of Thirukural and Bharathiyar Poems in Arabic and Mandarin
- Restoring the uniqueness of Tamil University in Thanjavur at a cost of Rs.30.60 crores



REVENUE DEPARTMENT

- Immediate disposal of 38.16 Lakh petitions under AMMA Scheme
- Under Fast Track Patta Transfer Scheme 39.55 lakh pattas transfers effected
- Drinking water supply schemes in drought hit areas at a cost of Rs.365.41 crores
- Rs.2,617.66 crores financial assistance under Chief Minister's Uzhavar Paathukaapu Thittam

DIFFERENTLY ABLED WELFARE DEPARTMENT

- For the 1st time in India differently abled person provided employment under 100 days MGNREGS Scheme Full day wages for 4 hours work
- Monthly maintenance assistance enhanced to Rs.1,000 for those severely affected. 1.09 lakh persons benefitted at a cost of Rs. 352.25 crores



- Marriage assistance for all applicants without income ceiling limit.
- Retrofitted scooters given free of cost to 1,800 persons with lower limb disabilities at a cost of Rs. 9.50 crores
- Percentage of disability for mentally challenged reduced from 60% to 45% to avail monthly assistance
- Chief Minister's Comprehensive Health Insurance Scheme extended to all the members of a family of differently abled

MICRO, SMALL AND MEDIUM ENTERPRISES DEPARTMENT

- Loan assistance to 569 educated youth for setting up industries at a total project cost of Rs.307 crores with a subsidy of Rs.46.57 crores
- A separate Industrial estate for Truck Body-Building Units at Namakkal at a cost of Rs.13.68 crores



COMPLETION OF THREE YEARS - COMPREHENSIVE GROWTH IN ALL SPHERES



HOME DEPARTMENT

POLICE

- 13,258 Police personnel recruited
- 10,099 persons appointed in Tamil Nadu Special Police Youth Brigade
- 5,087 Police rental quarters constructed at a cost of Rs.341.68 crores
- 2,673 houses under 'Own Your House' Scheme at Melakottaiyur at a cost of Rs.456 crores



- 13 point programme to ensure safety of women and prevent crimes against women
- Tamil Nadu is the first State with 16.1% women police force
- New buildings for 164 police

stations at a cost of Rs.82 crores

- Enhancement of insurance coverage to Rs.2 lakh for Police Constables to Inspectors and Rs. 4 lakh for DSPs and ADSPs



- Canteens for Police, Fire & Rescue Services, Prison and Forest Department Personnel for the first time in the country
- Rs.2 crores for Police Benevolent Fund to meet medical expenses
- 6,078 police quarters constructed
- 1,573 new vehicles at a cost of Rs.33.79 crores
- Master Health check up free of cost for Police personnel who have completed 40 years of age

FIRE AND RESCUE DEPARTMENT

- Complete Self-Protective Wear

for all fire personnel at a cost of Rs.28 crores

- Insurance amount to the families of deceased personnel who died while on duty enhanced to Rs.2 lakh

PRISON DEPARTMENT

- Modern Bakery at Central Prison, Puzhal at a cost of Rs.45 lakh

COURTS

- Enhancement of financial assistance to the nominee / legal heir of the deceased Advocates to Rs.5.25 lakh
- 177 Civil Judges recruited
- New court buildings and development of infrastructure facilities for judiciary at a cost of Rs.231 crores

HOME (TRANSPORT)

- Modernization of Check Post at Pethikuppam, Tiruvallur district at a cost of Rs.109.46 crores

TOURISM, CULTURE & HINDU RELIGIOUS AND CHARITABLE ENDOWMENT DEPARTMENT

- Special Tourism Infrastructure Development Project at a cost of Rs.500 crores
- Development of basic amenities in tourist places at a cost of Rs.127.74 crores
- Annadhanam Scheme in 618 temples
- Day long Annadhanam in Sri Aranganathar Swamy temple, Srirangam and Sri Dhandayuthapani Swamy temple, Palani
- Temple Renovation Fund

enhanced to Rs.50,000 for temples in Adi Dravidar and Tribal areas. 1,630 temples renovated at a cost of Rs.8.15 crores

- One - time Pooja Scheme Fund enhanced to Rs.1 lakh. 11,931 temples benefitted at a cost of Rs.119.31 crores
- Kumbabishekam in 5,182 temples
- Subsidy of Rs.40,000 and Rs.10,000 for pilgrimage to Manasarovar and Mukthinath respectively for each person
- Yatri Nivas at Srirangam at a cost of Rs.43 crores

- Marriage for 1,006 couples in Thiruverkadu with 4 gms of gold for Thirumangalyam and wedding gifts worth Rs.15,000 for each couple
- Tamil Nadu Music and Fine Arts University at Chennai

PLANNING, DEVELOPMENT AND SPECIAL INITIATIVES DEPARTMENT

- Chennai Metro Rail Project with a total length of 45 km including 24 km underground and 21 km elevated route length



COMPLETION OF THREE YEARS - COMPREHENSIVE GROWTH IN ALL SPHERES



SOCIAL WELFARE AND NUTRITIOUS MEAL PROGRAMME DEPARTMENT



- Marriage assistance along with gold for 'Thirumangalyam' worth Rs. 1,813.48 crores to 4.40 lakh educated poor women.
- 1.75 lakh girl children benefitted under Chief Minister's Girl Child Protection Scheme at a cost of Rs.314.95 crores
- Cradle Baby Scheme in 10 districts
- Rs. 5.4 crores subsidy for purchase of modern sewing machines for the members of women industrial tailoring cooperative societies
- Rs. 1.28 crores pension for 1,069 destitute transgenders. Bank loan and subsidy of Rs.2.20 crores to 51 transgender SHGs
- Enhancement of Monthly pension to Rs.1,000 under social security pension schemes.
- Age limit of 45 years reduced to 18 years to avail pension under destitute differently abled Pension Scheme
- 54.62 lakh children benefitted under Puratchi Thalaivar M.G.R. Nutritious Meal Programme at a cost of Rs.1,588.65 crores
- Construction of 15,313 anganwadi centres at a cost of Rs.601.91 crores
- 35.21 lakh anganwadi children, adolescent girls, pregnant women and lactating mothers benefitted under ICDS scheme at a cost of Rs.1,436.49 crores

SCHOOL EDUCATION DEPARTMENT

- Based on educational growth indicators, Tamil Nadu has moved to 1st place from 3rd place among States at the national level
- Special incentive of Rs.1047.69 crores to 21.27 lakh students to avoid school dropouts
- 4 sets of uniforms free of cost for 46.60 lakh students
- School bags free of cost for 105 lakh students



- Notebooks free of cost for 83.86 lakh students
- Text books free of cost for 86.31 lakh students
- Geometry boxes free of cost for 55.68 lakh students
- Colour pencils and crayons free of cost for 31.96 lakh students
- Atlas free of cost for 55.67 lakh students
- Footwear free of cost for 84.92 lakh students
- Bicycles free of cost for 6.27 lakh 11th standard students

ANIMAL HUSBANDRY, DAIRY AND FISHERIES DEPARTMENT

- Milch cows free of cost for 36,000 beneficiaries at a cost of Rs. 126.01 crores
- 16 lakh goats/sheep free of cost to 4 lakh beneficiaries at cost of Rs.506.36 crores
- Financial assistance of 94.1 crores to 4.70 lakh fishermen families during Fishing ban period



- Financial assistance Rs.198.82 crores to 4.97 lakh fishermen families during lean period
- Tamil Nadu Fisheries University at Nagapattinam at a cost Rs.18.10 crores
- Institute of Fisher Technology Centres at Ponn and Nagapattinam at a cost Rs.68.14 crores
- Fish Processing Parks Cuddalore and Nagapattinam at a cost of Rs.37 crores
- New Veterinary colleges and Research Centres at Orathur and Tirunelveli at a cost Rs.115.55 crores

- Woollen sweaters free of cost for 1.03 lakh students in hilly areas
- 11.26 lakh students participated in chess competitions
- 52,417 Teaching posts and 11,002 Non-Teaching posts filled up

COMPLETION OF THREE YEARS - COMPREHENSIVE GROWTH IN ALL SPHERES



INDUSTRIES DEPARTMENT

MoUs with 33 Indian and MNCs with an investment of Rs. 31,706 crores creating 1.55 lakh jobs
35 Industrial Units through Guidance Bureau with an investment of Rs. 14,897 crores



Release of Tamil Nadu Industrial Policy 2014, Tamil Nadu Automobile and Auto

Components Policy 2014 and Tamil Nadu Biotechnology Policy 2014

- Tamil Nadu positioned as the 2nd largest State economy, with Gross State Domestic Product standing at Rs. 4.28 lakh crores
- Paper Board Plant at Mondipatti, Trichy District by TNPL Ltd at a cost of Rs. 1,500 crores
- Expansion of TANCEM Ariyalur Cement Plant at a cost of Rs. 542 crores approved
- Establishment of Industrial Parks in 9 Southern Districts by SIPCOT
- 100 MW Solar Power park in Ramanathapuram District at a cost of Rs. 920 crores

HEALTH AND FAMILY WELFARE DEPARTMENT

- Treatment to 6.81 lakh persons at a cost of Rs.1,456 crore under Chief Minister's Comprehensive Health Insurance Scheme
- Sanitary napkins free of cost to 114.35 lakh rural adolescent girls at a cost Rs.165 crores
- Multi Super Speciality Hospital at Omandurar Government Estate at a cost of Rs.143.14 crores
- Upgradation of Tiruchi Mahatma Gandhi Memorial Government Hospital as centre of excellence at a cost of Rs.100 crores
- 165 primary health centres and 122 upgraded primary health centres at a cost of Rs.258.44 crores
- New Medical Colleges at Tiruvannamalai and Sivagangai at a cost of Rs.244.70 crores
- Financial assistance enhanced to Rs. 12,000 under Dr.Muthulakshmi Reddy Maternity Benefit Scheme. 20 lakh pregnant women benefitted at a cost of Rs.1,806 crores

AGRICULTURE DEPARTMENT

- 'Krishikarman' Award from Central Government for record food grain production
- Rs.1,328.50 crores drought relief assistance for yield loss to 20.90 lakh farmers
- 80.86 lakh farmers participated in Uzhavar Peruvizhas conducted at a cost of Rs. 79.88 crores and Agricultural

Inputs distributed at a cost of Rs.42.78 crores

- First time in the country, 100% Subsidy for Micro Irrigation to small/ marginal farmers and 75% Subsidy to other farmers without land ceiling restriction
- Payment of Paddy Crop Insurance premium amount of Rs.30 crores by Government for 5.32 lakh Delta farmers affected by drought during 2012

LABOUR WELFARE AND EMPLOYMENT DEPARTMENT

- Enhanced Monthly pension of Rs.1,000 to the members of unorganized Labour Welfare Boards. 13.02 lakh persons benefitted at a cost of Rs.309.69 crores
- Monthly stipend for Government ITI students enhanced to Rs.500
- Monthly financial assistance for rescued child labourers pursuing higher studies enhanced to Rs.500

INFORMATION AND PUBLIC RELATIONS DEPARTMENT



- Renovation of Perarignar Anna and Bharat Ratna M.G.R. Memorials, Guindy Gandhi Mandapam Campus, Mahatma Gandhi Statue at Chennai Marina, Kamarajar Ninaivillam at Chennai,

Kamarajar Manimandapam in Kanyakumari, Thanthai Periyar Memorial at Vaikkom in Kerala and Rajaji Mandapam in Chennai at a cost Rs.23 crores

- Birthday celebration of Rettaimalai Srinivasan and Veeramangai Velu Naachiyar
- Commemorating November 1, the day of Kanyakumari district merger with Tamil Nadu with floral tributes to Marshal Nesamani Statue as Government function



COMPLETION OF THREE YEARS - COMPREHENSIVE GROWTH IN ALL SPHERES



MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT



- 294 AMMA UNAVAGAM to provide food at affordable prices
- Rural water supply schemes at a cost of Rs.2,746.85 crores
- Infrastructure facilities in Chennai Corporation at a cost of Rs.1,161 crores
- Underground sewerage works

in 15 municipalities at a cost of Rs.656.79 crores

- Nemmeli desalination plant at a cost of Rs.785.75 crores
- Improvement of infrastructure in Corporations, Municipalities and Town Panchayats at a cost of Rs.4,950.73 crores
- Plastic roads at a cost of Rs.1,336.43 crores
- Water supply improvement and sewerage facilities under Chennai Mega City Development Mission at a cost of Rs.1,155.20 crores

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

- 1.80 lakh Chief Minister's Solar Powered Green Houses at a cost of Rs.3,420 crores
- Construction of 3.35 lakh houses under IAY Scheme at a cost of Rs. 3,593.42 crores
- Developmental works at a cost



of Rs.2,180 crores under "THAI" Scheme

- Loan assistance of Rs.14,097.50 crores to SHGs through banks
- Poverty alleviation through Tamil Nadu State Rural Livelihood Mission at a cost of Rs.232.30 crores
- Employment opportunities to 90,606 Youth and Rs.619.49 crores for Rural Poverty Alleviation activities under Pudhu Vaazhvu Project

COMMERCIAL TAXES AND REGISTRATION DEPARTMENT

- VAT exemption on agricultural implements and inputs to the tune of Rs.87 crores per annum
- VAT exemption on domestic LPG to the tune of Rs.120 crores per annum
- Stamp duty on sale documents reduced from 6% to 5%

HIGHWAYS AND MINOR PORTS DEPARTMENT

- Widening and improvement of 32,916 km of roads at a cost of Rs.10,348.35 crores
- 953 bridges and culverts at a cost of Rs.1,093.73 crores
- 33 bridges at railway level crossings at a cost of Rs.704.54 crores
- Bridge connecting Srirangam and Tiruchi at a cost of Rs.77.72 crores

ENVIRONMENT AND FORESTS DEPARTMENT

- Planting of 1.95 crores saplings to mark the occasion of the birthday of Hon'ble Chief Minister
- Compensation enhanced to Rs.3 lakh for death caused by wild animals
- Butterfly Park in Srirangam at a cost of Rs.7.35 crores
- 4th Tiger Reserve in the State at Sathyamangalam



BACKWARD, MOST BACKWARD CLASSES AND MINORITIES WELFARE DEPARTMENT

- Social justice established by continuing 69% reservation without excluding creamy layer
- Monthly pension under 'Ulem Pension Scheme' enhanced to Rs.1,000
- Financial assistance of Rs.1.78 crores to 891 Christian pilgrims for undertaking pilgrimage to Jerusalem
- Rs. 3 crores as grant for the creation of 'Wakf Institutions Development Fund'
- Own buildings for 208 hostels at a cost of Rs.200.43 crores
- Government bears the tuition fee and special fee for 75,000 students at a cost of Rs.16.44 crores

COMPLETION OF THREE YEARS - COMPREHENSIVE GROWTH IN ALL SPHERES



YOUTH WELFARE AND SPORTS DEVELOPMENT DEPARTMENT



Cash Incentive enhanced to Rs. 50 lakh for Gold medallists in Asian and Commonwealth Games

1st time in India, FIDE World Chess Championship match in Chennai at a cost of Rs. 29.15 crores

Chief Minister's Trophy Sports Competitions held at a cost of Rs. 13.61 crores

Cash Incentive enhanced to Rs. 2 crores for Olympics Gold medalist

Scholarship of Rs.25 lakh every year for 5 elite sports persons aiming for Olympics



INFORMATION TECHNOLOGY DEPARTMENT

Arasu Cable TV services with 90 to 100 channels at a minimum subscription of Rs.70 per month to 65.84 lakh subscribers

e-District Project roll out and Urban e-Service Centres in Chennai and 25 districts

HIGHER EDUCATION DEPARTMENT

- 36 new Arts and Science Colleges
- Indian Institute of Information Technology at Srirangam at a cost of Rs.128 crores
- 11 new Government Polytechnics at a cost of Rs.225.80 crores
- 4 New Government Engineering Colleges at a cost of Rs.347.03 crores
- Assistance to students of Government Colleges to pursue higher education in foreign universities

PUBLIC DEPARTMENT

- Enhancement of monthly pension to Rs.9,000, family pension to Rs.4,500 and monthly medical allowance of Rs.500 for Freedom Fighters
- Group Personal Accident Insurance Scheme Upto Rs.3 lakh for contract employees of TEXCO
- Enhancement of Ex-gratia to Rs.10 lakhs to the families of Service Personnel killed in action and Rs.7 lakh for those disabled

WELFARE OF SRILANKAN TAMILS

- 1,655 new houses at a cost of Rs.19.86 crores
- Extension of all welfare schemes to the Sri Lankan Tamils living in camps

ENERGY DEPARTMENT

- Power generation commenced in Mettur Thermal Power Project Stage III (600 MW), two units in North Chennai Thermal Power Project Stage II (2X600 MW) and two units of Vallur (3X500 MW) Power Project adding 2,500 MW of Generation Capacity to the Grid
- Contract for Ennore Expansion Power Project of capacity 660 MW at a cost of Rs. 3,961 crores finalised
- New Thermal power projects in Uppur (1600 MW), Udangudi (1320 MW) and Ennore (1320 MW) with 4,240 MW capacity
- New windmills with 1,225 MW capacity
- Agreement to purchase 3330 MW of power from 2014 for 15 years signed.
- Financial assistance of Rs. 26,255.35 crores to TANGEDCO by State Government

PERSONNEL AND ADMINISTRATIVE REFORMS DEPARTMENT

- Maternity leave for women Government servants enhanced to 180 days
- 30,157 candidates recruited through TNPSC

HOUSING AND URBAN DEVELOPMENT DEPARTMENT

- Construction of 18,340 new houses at a cost of Rs.1,956 crores
- 35,072 apartments for slum dwellers in Chennai and other towns at a cost of Rs.2,029 crores



COMPLETION OF THREE YEARS - COMPREHENSIVE GROWTH IN ALL SPHERES



PUBLIC WORKS DEPARTMENT



- Historic judgement of the Supreme Court to raise the height of Mullai Periyar Dam to 142 ft
- The final orders of the Cauvery Water Disputes Tribunal published in the Gazette of the Government of India, upholding the rights of Tamil Nadu
- Cauvery Delta Development Scheme at a cost of Rs.1,560 crores
- Renovation of 2,541 lakes, 302 anicuts and canals to a length of 4,340 km at a cost of Rs.777.60 crores
- Manimandapam at a cost of Rs.1.25 crores for Colonel Pennycuik who constructed Mullai Periyar Dam



LAW DEPARTMENT

- National Law School at Srirangam at a cost of Rs. 75 crores
- Reimbursement of tuition fee by the Government for first generation graduates studying Law
- New campus for Tamil Nadu Dr. Ambedkar Law University in Chennai at a cost of Rs.59.27 crores

TRANSPORT DEPARTMENT

- 6,000 new buses at a cost of Rs.1,026 crores
- Number of scheduled bus services increased to 20,684
- Guinness Record set by 53,129 transport employees participating in a blood donation camp in a single day
- Free bus passes to 50 lakh students
- "AMMA" Mineral Water at a cost of Rs.10 / litre to passengers and general public
- 100 small buses in 40 routes in Chennai



ADI DRAVIDAR AND TRIBAL WELFARE DEPARTMENT

- Rs.497.78 crores loan assistance with a subsidy of Rs.152.42 crores to start Self Employment Ventures through TAHDCO
- Rs.187.86 crores loan assistance with a subsidy of Rs.93.93 crores to 3,986 women SHGs through TAHDCO
- Rs.60.51 crore assistance to 26.72 lakh girl children to prevent school dropouts
- Rs.100 crores for Integrated Tribal Development Programme
- Government bears the maintenance allowance and tuition fees of the students in Government, Government-aided and Self financed Schools and Colleges. 21.28 lakh students benefitted at a cost of Rs.1,681.42 crores

FINANCE DEPARTMENT

- Release of "Tamil Nadu Vision 2023 Volume-II" document with Rs.15 lakh crore investment
- Budget estimate exceeding Rupees One lakh crore for the past 3 years. Revenue surplus achieved continuously for the past 3 years
- Medical assistance Government employees and the New Health Insurance Scheme enhanced Rs.4 lakhs.
- New Health Insurance Scheme up to Rs.2 lakh to Pensioners Family Pensioners for a block 4 years
- Assistance under Family Security Scheme enhanced from Rs.25,000 to Rs.50,000 for government employees

HANDLOOMS, HANDICRAFTS, TEXTILES AND KHADI DEPARTMENT

- 10,000 Green houses to handloom weavers at a cost of Rs.260 crores
- Interest free loan of Rs.179.32 crores and Subsidy of Rs.112.50 crores to Tiruppur common effluent treatment plants
- Free Power worth Rs.479.80 crores to 2.56 lakh handloom and powerloom weavers
- Old-age pension and Family pension for handloom weavers enhanced to Rs.1,000
- Discontinued contribution amount of Government of India to 68,400 weavers being paid by State Government

Back Office at the Forefront

Capgemini took a little time in adopting India as its global hub for offshoring but is now going full throttle. By **SUNNY SEN**



The pathfinder: Paul Hermelin, CEO and Chairman, Capgemini

Aruna Jayanthi, CEO of Capgemini India, still remembers the first two contracts the technology outsourcing services provider signed with overseas clients. The two contracts – signed in 2003 – were from a US auto maker and a UK retailer. “They are still our customers after 10 years,” she says. A lot has changed in these 10 years. Capgemini India now has scores of clients and thousands of employees, as the local unit of the French consulting and technology giant expanded. What has changed also is the way it does business and sells its services to potential clients.

Jayanthi explains how. Earlier, when Capgemini’s global sales team sighted an opportunity, it would look at the potential business the deal could generate, sign the deal and then ask India to provide the services. Now, once an opportunity is identified a sales team is put together. The proposal is made in India after considering what services can be delivered, the pricing structure and the competitors. The sales team, says Jayanthi, builds customer relationships but it’s the service delivery team in India that looks at the client’s problems and how they can be resolved.

Jayanthi cites a recent example to illustrate the change. In January this year, Capgemini signed a con-

SHEKHAR GHOSH/www.indiatodayimages.com



tract with Statoil, a Norwegian oil and gas company. Before signing the contract, a team of 25 employees from Capgemini India was sent to Norway. The team stayed in Stavanger, where Statoil is based, for almost six months. "The team understood the oil business and their [Statoil's] problems," says Jayanthi. "Once the deal got signed, the team remained the same because Statoil was comfortable with them."

Capgemini, of course, is not the only technology outsourcing company in India that follows this practice. Its two biggest multinational rivals, Dublin-headquartered Accenture Plc and US-based International Business Machines Corp. (IBM), do it as well. Capgemini, in fact, is a latecomer to India and started focusing on the country much after the other two had already built large back-office bases here to service global clients.

Getting a Toehold

In 2001, Capgemini bought Ernst & Young's consulting business worldwide. The business had 120 people in India at the time with Salil Parekh as its head and Jayanthi one of the employees. Parekh, like Jayanthi, remains with Capgemini. Their role in the company has expanded as India's importance for the French multinational grew – both are now part of the group's management board. Parekh is now head of application services for North America, the UK and Asia Pacific and also of the global financial services business at Capgemini.

Parekh played a key role in Capgemini's expansion in India. By 2006, India had cemented its position as the world's technology outsourcing hub. IBM, Accenture as well as Indian companies such as Tata Consultancy Services, Infosys and Wipro had been expanding at a rapid pace. But Capgemini was

€10.1

BILLION

Capgemini's global revenue in 2013, up 0.9% from 2012

44%

The share of offshore work in Capgemini's global revenue

50,000

Capgemini India's headcount. This is a third of the global workforce

21%

Growth in Capgemini's India revenue in 2013

pany. By 2010, Capgemini's headcount in India had jumped 10 times to nearly 30,000 employees. Today, it has 50,000 employees – almost a third of the global workforce.

Capgemini's dependence on India for manpower is higher when compared with its two main multinational rivals. Accenture has about 60,000 employees in the country, or about a fifth of its global workforce, while IBM employs a quarter of its 434,000 employees in India. But, it's not only about the headcount. Offshoring makes up 44 per cent of Capgemini's total global revenue. India handles 80 per cent of the offshore work. The remaining 20 per cent is shared by Morocco, Poland, China, Argentina and Guatemala. "India has helped Capgemini become a more global player," says Sanchit Vir Gogia, Founder and Chief Analyst, Greyhound Research, an IT research and advisory firm. "India handles most of Capgemini's clients in some form or the other."

Essentially Indian

Jayanthi says the company's high dependence on India is unusual for European IT firms, which are still guarded towards the concept of offshoring. "We are five to seven years behind the US market," she says. Other French IT companies such as Steria, Atos and Sopra haven't expanded as much as Capgemini did in India. Even Capgemini wasn't comfortable offshoring a large part of its work in the beginning because it was already a major player in Europe and the UK and because offshoring led to lower billing rates, which impacted revenue. "There was no competitive pressure in Europe to make that shift," says Jayanthi, who previously headed Capgemini's global delivery team, the nerve centre of offshoring.

Hermelin, who met with *Business Today* during a visit to New

barely in the picture, as it was mainly a Europe-centric player. It had only 2,700 people in India at the time. Parekh asked Paul Hermelin, now CEO and Chairman of Capgemini, to come to India for a visit and convinced him to make the country an offshore hub for the com-



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Delhi in the last week of March, says 70 per cent of Capgemini's US business is offshored to India. The comparable figures for Europe are far lower. For instance, only 20 per cent of the company's business in France is outsourced to the South Asian nation, says Hermelin, who also travelled to Mumbai during the India visit to interact with about 135 senior company executives.

Hermelin says if, hypothetically speaking, Capgemini were to pull out of India or the country loses its edge as a low-cost offshoring destination, the company will have to "completely reinvent the US business" because no other country would be able to match India, particularly in terms of offering trained manpower in large quantities. Even in emerging outsourcing destinations such as Vietnam and the Philippines, he says, the company cannot ramp up its headcount beyond 20,000 employees.

Hermelin initially thought the share of offshoring in Capgemini's global revenue would never be more than 50 per cent, but now he thinks it will increase further. "It will probably go up to 60 per cent," he says. India, where Capgemini has 12 research centres, will continue to play a key role in the company's offshoring business. However, there are still areas where India needs to pick up. These include new-generation services such as mobility, which allows employees of clients to work from outside their offices, as well as cloud computing and business intelligence. Currently, most of this work is handled from the US and Europe. "The heart of mobility and cloud is in the US and the rest is more in India," says Hermelin.

Arup Roy, Research Director at global research firm Gartner, says Capgemini is investing a lot in new-generation services in India. "They [Capgemini] have heightened the

VIVAN MEHRA/www.indiatodayimages.com



ARUNA JAYANTHI, CEO, Capgemini India

"We are five to seven years behind the US market... There was no competitive pressure in Europe to make that shift [towards offshoring to India]"

investment because of the maturity of the India story – for new solutions and new technologies," he says. "That is very good for them."

Hermelin wouldn't disclose any investment numbers for India. But he gives a hint of the things to come. Capgemini will have more than

70,000 employees in India by the end of 2015 or early 2016, or half of the group's global headcount, he says. And, the company's dependence on India will increase even further. ♦

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Writing a New Prescription

On February 23, 2011, the US Food and Drug Administration (FDA) banned imports of products made at a factory of Aurobindo

Pharma citing violations of manufacturing standards. Shares of the Indian drug maker plunged that day as well as the next two days, losing a quarter of their value. Exactly three months later, the company again came under regulatory scrutiny with the FDA asking it to comply with packaging and labeling standards at a second factory. Investors dumped Aurobindo again, with the shares sliding 16 per cent over three days.

The tables have turned since then, and Aurobindo is now the darling of investors. On May 28, its shares touched a one-year high of ₹655.60 after surging more than four-fold since March 2013 when the FDA lifted the import ban after having satisfied itself of the improvements Aurobindo made. The com-

Aurobindo Pharma shifted its focus from basic ingredients to finished drugs over the past few years. It is now moving further up the value chain to boost profitability. By E. KUMAR SHARMA

pany's spectacular performance is not limited to stock markets alone; its revenue and profitability have also jumped. Net sales for the nine-month period through December 2013 touched the level attained in the entire preceding fiscal year while profit before tax more than doubled. A detailed look at the financials shows sales have doubled since 2008/09 while pre-tax profit has jumped more than 10 times. So, what has been driving growth at Aurobindo?

Aurobindo was founded in 1986 by P.V. Ramaprasad Reddy and K. Nityananda Reddy (the two are related – Nityananda is married to

Ramaprasad's cousin and Ramaprasad's son is married to Nityananda's daughter). The company is named so because its first factory was set up in Pondicherry, the adopted home of spiritual guru Sri Aurobindo. The company, which sold the Pondicherry unit in 2002 and shifted focus to Hyderabad, mainly made bulk drugs for more than two decades. But it has transformed its business model over the past few years and moved up the value chain. Five years ago, bulk drugs – also called active pharmaceutical ingredients (APIs) – accounted for nearly 60 per cent of total revenue while finished drugs, or formulations, contributed the remaining. That has changed now. For the first nine months of



Sharpening the focus: Aurobindo Pharma MD and CEO N. Govindarajan at a company research centre on the outskirts of Hyderabad

"It [the transition] is purely driven by the need to get more into areas where there is scope for better profit margins"

A. PRABHAKAR RAO

HOW AUROBINDO HAS CHANGED

THE US

It contributed ₹1,752.6 crore (30%) to total revenue in 2012/13, up nearly three-fold in five years

FINISHED DRUGS

Account for nearly two-thirds of revenue, up from 40% five years ago

LIMITED-COMPETITION PRODUCTS

It is focusing on injectables, penems and controlled substances

NEW DRUG LAUNCHES

It has filed 336 applications to introduce new generic drugs in the US

"The development pipeline... has a significant number of products that are, or have been, on the FDA's shortage list... (and) products already off-patent that have limited competitors"

RONALD F. QUADREL/ President, AuroMedics Pharma

2013/14, almost two-thirds of revenue came from finished drugs and APIs made up the rest.

The reason for the shift away from bulk drugs such as the widely used antibiotics semi-synthetic penicillin and cephalosporin and the new focus on finished drugs is simple – finished drugs offer higher profit margin. According to industry estimates, bulk drugs typically offer margins in a range of 10 to 20 per cent. Margins can go up to 50 per cent in the case of finished drugs taken orally, such as tablets and capsules, and even higher for injectable products.

What boosts Aurobindo's margins further is the fact that it sources more than 90 per cent of basic and intermediate ingredients used in the making of finished drugs internally. "There was a phase when Aurobindo was seen as a company with more of 'me-too' products. It now wants to transition to one that has a differentiated product portfolio," says N. Govindarajan, CEO and Managing Director, Aurobindo Pharma. "It is purely driven by the need to get more into areas where there is scope for better profit margins."

The six-feet-six-inches tall Govindarajan joined Aurobindo in October 2010 from Shasun Pharmaceuticals as CEO of the bulk drugs business. He has been leading the transformation at Aurobindo for the past couple of years after being promoted to managing director of the company in June 2012. Over the past couple of years, the com-

pany has diversified into new segments for its finished drugs, such as cardiovascular, neurology and gastrointestinal. The focus has also been on expanding business in key markets such as the US and Europe.

Aurobindo started its US business just 10 years ago, becoming one of the last leading Indian companies to enter the world's largest drug market. Overall, Aurobindo has filed 336 new drug applications with the FDA, second only to Sun Pharmaceutical Industries among Indian drug makers. Of these,

166 have been approved. The US now contributes a third to total sales. Revenue from the US rose to ₹931.2 crore in October-December

2013/14 from ₹513.4 crore in the same period a year earlier.

Aurobindo's US business expanded rapidly after it started selling its injectable penicillin products in April 2012 through its wholly owned subsidiary AuroMedics Pharma. Playing an important role in this expansion is a new factory in Hyderabad that makes sterile liquids. Aurobindo launched six products made at the factory, which received FDA clearance in 2012, in the US last

year, says Ronald F. Quadrel, President, AuroMedics, in an email to *Business Today*.

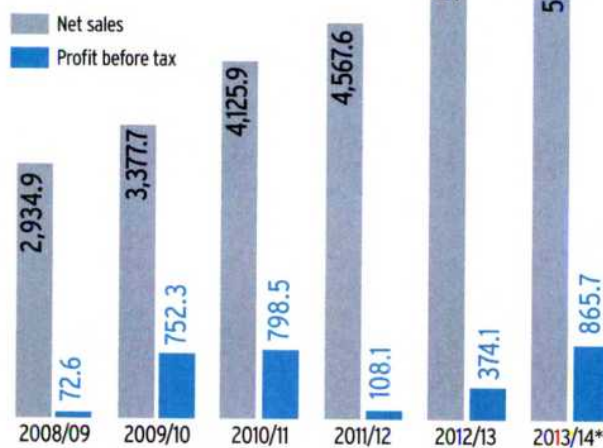
He says the factory will make "a high percentage" of the injectable products the company will launch in the US.

Aurobindo has an aggressive timeline to launch generic injectable products, says Quadrel. It has filed 47 applications for generic injectable products with the FDA since 2011, of which 38 are under review. The company is developing 60 more products, the majority of which should be filed with the FDA within two years. He expects "a modest number" of these products to receive the FDA's clearance in 2014 and a significant upsurge in approvals in next two years. "The development pipeline... has a significant number of products that are, or have been, on the FDA's shortage list... (and) products already off-patent that have limited competitors," says Quadrel.

₹931.2 CRORE
Aurobindo's revenue from the US business in October-December 2013/14, up sharply from ₹513.4 crore a year earlier

GAINING HEFT

Aurobindo's makeover has boosted sales while profits are recovering

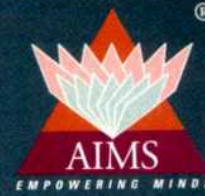


Numbers in ₹ crore

* For the nine-month period ended Dec 31, 2013

Source: Company

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"Aurobindo seems to be in a sweet spot at the moment with a strong pipeline of new drugs it plans to launch in the US. However, we need to see if there are any regulatory surprises or if any new FDA issues crop up"

HEMANT BAKHRU/ Analyst, CLSA

The reason Aurobindo is turning its attention towards injectables and limited-competition products, particularly those that cater to niche segments such as cancer, is because these offer higher profit margins. That is also the reason why the company plans to launch penems and controlled substances. Penems is a new class of antibiotics while controlled substances are medicines that have some narcotic products as ingredients and find applications in areas like pain management.

Another area on which Aurobindo is concentrating is injectable peptides. Peptides are basically a type of proteins that are used in a wide range of areas both in medicine and biotechnology and are also used in health supplements and skin care products. The company set up a new unit, AuroPeptides, about a year-and-a-half ago to develop and commercially manufacture polypeptide bulk drugs. Aurobindo is now one of the few vertically integrated companies in India that can make both peptide ingredients as well as finished injectable products.

New product launches in these new high-margin segments will help Aurobindo sustain its growth momentum over the next two to three years, Manoj Garg, research analyst at broking firm DSP Merrill Lynch, said in a January report. Garg expects the company to grow strongly considering its solid pending pipeline in the US and increased focus on differentiated and complex generics. Perin Ali, analyst at Edelweiss Securities, concurs. "With a product portfolio of more than 300 products, it [Aurobindo] has one of the deepest portfolios for regulated markets," Ali said in a November 2013 report.

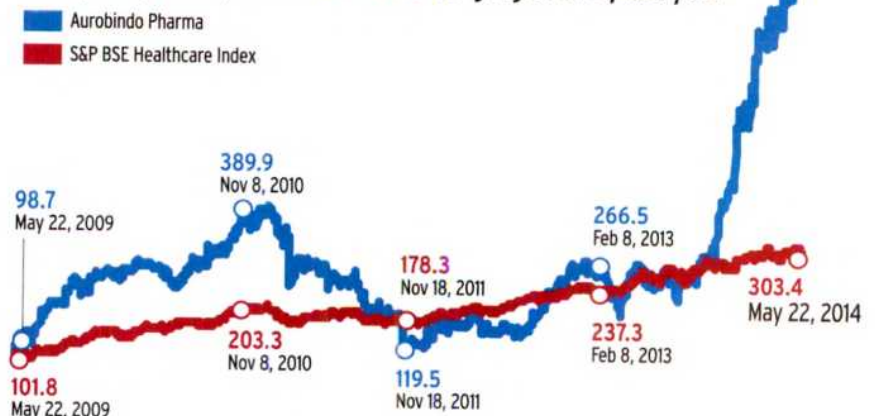
To add more arrows to its quiver, Aurobindo hit headlines in January this year when it decided to acquire the loss-making operations of the Dublin, Ireland-based Actavis Plc in seven western European countries – Italy, Spain, France, Portugal, Germany, Belgium and the Netherlands – for €30 million (about

Will Aurobindo meet its targets? And will investors remain bullish?

An analyst at a Mumbai-based brokerage, who does not want to be named, says the company has, historically, promised more and delivered less. He also felt that, although the company has hired professionals for key management roles, it should

OUTPERFORMER

Aurobindo has beaten the sectoral index over a five-year period, with its shares surging in the past year



*Aurobindo's share price and the index level rebased to 100.

Source: Ace Equity

₹240 crore) in cash. The deal was completed in April.

The acquisition adds about 1,200 products and a pipeline of more than 200 products to Aurobindo's portfolio, the company said in a statement at the time. It added that the acquired business likely had net sales of €320 million (₹2,560 crore) in 2013. Just after the deal was announced, co-founder Ramaprasad Reddy told *BT* over the phone the deal will start adding to the bottom line in a year's time. It will also help the company grow its revenue to about \$1.7 billion (about ₹10,000 crore) in 2014/15, he said.

improve its corporate governance practices. Hemant Bakhru, analyst at CLSA, says Aurobindo has started getting revenue from limited-competition products like the anti-depressant drug Cymbalta and seems to be in a "sweet spot" at the moment with a strong pipeline of new drugs it plans to launch in the US. "However, we need to see if there are any regulatory surprises or if any new FDA issues crop up," he says. That's what the company must watch out for to remain the darling of investors. ♦

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Going Up in the World

Textile exports did well last year, growing more than 15 per cent. **By AJAY MODI**

Textiles did remarkably well in an otherwise dull exports scenario in 2013/14. A weaker rupee and firm overseas demand helped the sector add \$4 billion to overall exports of \$312 billion, second only to engineering goods, which accounted for a \$4.83-billion increase. Other export segments that helped increase export earnings were chemicals and related products (\$2.25 billion) and petroleum products (\$1.83 billion), shows government data.

Textile exports were worth \$30.37 billion in 2013/14, up from \$26.36 billion in the previous year – a growth of 15.24 per cent, compared to a decline of 3.11 per cent in 2012/13. All major segments in the

sector grew at a healthy rate. Readymade garments, which accounts for nearly half of all textile exports at \$14.93 billion, grew 15.53 per cent. Cotton yarn and fabrics grew 18 per cent to \$8.88 billion, while manmade textiles grew nearly 13 per cent to \$5.69 billion.

According to commerce ministry

\$30.37
BILLION

Value of India's textile exports in 2013/14



data, the share of textiles in export earnings increased from 8.78 per cent in 2012/13 to 9.72 per cent in 2013/14. Overall exports grew four per cent to \$312.6 billion in the year ended March 2014. Had textile exports remained unchanged, overall export growth would have been less than three per cent. Petroleum products, which account for one-fifth of export value, grew only three per cent. Engineering goods, the second biggest segment, accounting for over 19 per cent of export value, grew 8.5 per cent. Gems and jewellery, the third largest contributor (over 13 per cent),



Skein trade: Vardhman Textiles' plant in Ludhiana, Punjab. Its cotton yarn exports to China almost doubled last year

PHOTOGRAPHS BY SHEKHAR GHOSH

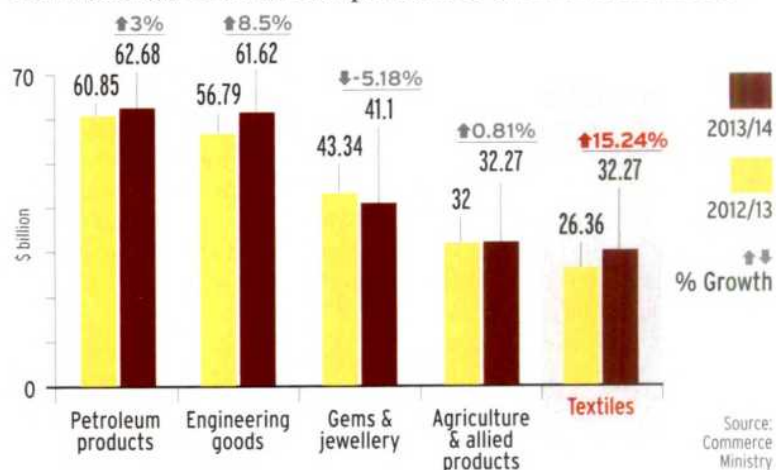
declined more than five per cent.

Provisional data with the commerce ministry shows continuing growth for readymade garments and manmade textiles in April, though there is a let-up in growth of cotton yarn and fabrics. Readymade garments grew at over 14 per cent to \$1.32 billion, manmade textiles grew near 12 per cent to \$433 million while cotton yarns grew over four per cent to \$808 million.

India Ratings said in its report early this calendar year that the economic recovery in key markets — the US and Eurozone — would continue to drive the order book of

Export Earnings

How textiles fared in comparison to other commodities



exporters in 2014/15. Export sales have also improved, as garment manufacturers have ventured into new regions such as West Asia, Latin America, Japan, Russia and Australia. "Most exporters are running on full capacity and also outsourcing manufacturing on a job-work basis, as order books are growing," the report notes. The agency sees a better outlook for the textile industry.

Improving export competitiveness over Asian peers such as China (on a depreciated rupee), a drop in raw material prices, and healthy demand from US and Europe not only boosted exports but also helped Indian textile companies earn higher profits in the last fiscal. "The trends (weaker rupee, and improving demand for garments and yarn), if sustained in 2014/15, are likely to improve the financial metrics of yarn and garment manufacturers", the rating agency said.

The net profit of the Ludhiana-based Trident Group, a leading textile company, grew 300 per cent to ₹197 crore in 2013/14. Sustaining last year's momentum, however, seems to be a challenge. "The situation is not bright like last year. The exchange rate advantage is coming down sharply and demand from China is sluggish. While exports will continue, the industry's profitability may not be as good as last year," says Trident Chairman Rajinder Gupta.

Besides the exchange rate, other external factors also influenced the industry's profitability in 2013/14. China became a large importer of cotton yarn as its government's policy was to keep domestic cotton prices high. The Chinese government was buying cotton from farmers at

high prices, and selling it at a subsidised rate that was still higher than the landed price of imported cotton.

"Spinners outside China got an opportunity," says S.P. Oswal, Chairman and Managing Director, Vardhman Textiles. "Our exports of cotton yarn to China almost doubled last year, and that has driven profitability. India, Pakistan and Vietnam are major beneficiaries. Depreciation of the rupee had helped

exporters, we must be allowed to hire temporary labour. Garment exporters cannot survive on permanent labour, since demand is highly volatile."

Garment exports from India also picked up in 2013/14. Bangladesh's exports suffered after 1,000 workers perished in a textile factory fire there last year. "Bangladesh exports garments worth \$26 billion a year," says Oswal. "Global buyers shifted from Bangladesh to Vietnam and India. Our garment team is busy."

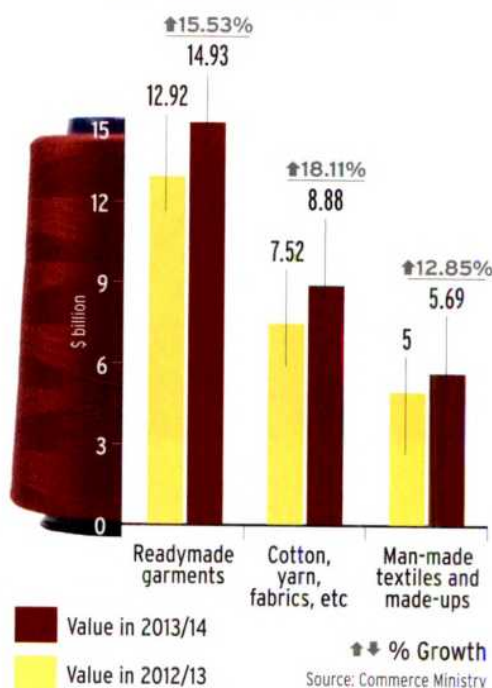
The Chinese government has lowered the minimum bid price for cotton in auctions by 750 yuan or 4.2 per cent, to 18,000 yuan per tonne, from April this year. Indian exporters fear that this will impact their business. According to the Cotton Textiles Export Promotion Council of India (Texprocil), there is increasing anxiety in the industry due to recent developments in China's cotton policy, as that country is a major importer of cotton and cotton yarn from India.

However, according to Texprocil, the price difference between Indian and Chinese cotton is quite large. "In fact, prices of Indian cotton yarn after duty and taxes in China are still very much lower than Chinese domestic yarn prices," it said in a recent statement.

Texprocil Chairman Manikam Ramaswami allays concerns. "Given the better quality produced by Indian mills, there will always be good exports of Indian yarns, even if the difference between Chinese cotton prices and international cotton prices narrows substantially," he says. "Indian mills need not fear a drop in yarn exports beyond seasonal fluctuation. However, profitability of exports will depend upon our price parity with interna-

How Top Segments Fared

Value and growth in top textile export products



Indian exporters. The industry had stocks that were bought at a time when the currency was stronger." Vardhman reported an all time high net profit of ₹652 crore in 2013/14, more than twice its 2012/13 profit of ₹324 crore.

Oswal says the availability and cost of labour is also becoming an issue in China. "We must take advantage of this situation. As



Slideshow of Vardhaman's Ludhiana factory at
www.businesstoday.in/vardhaman-factory



S.P. Oswal

CMD, Vardhaman Textiles

**“Depreciation of
the rupee helped
exporters, who
had stocks bought
when the currency
was stronger”**



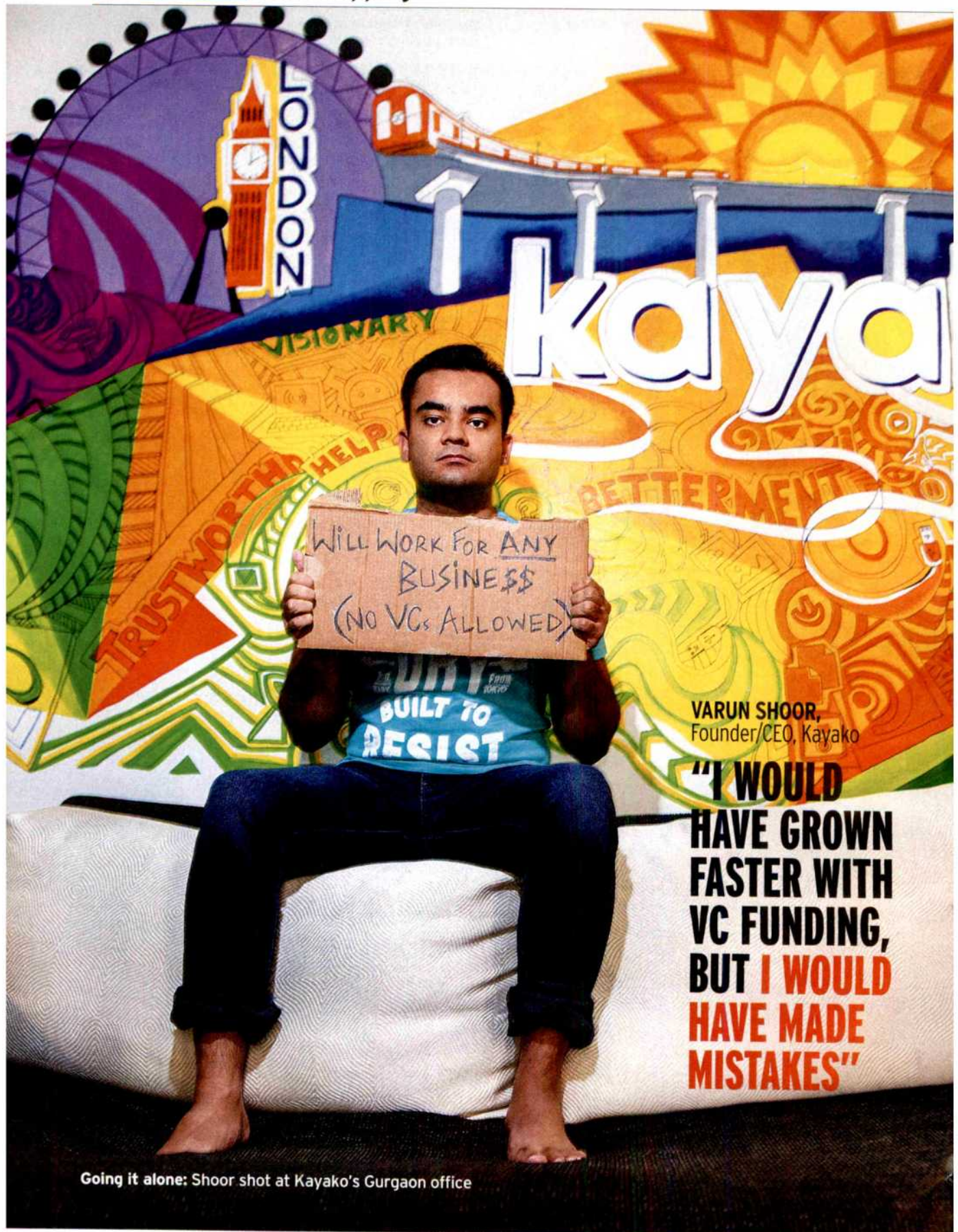
tional cotton prices.”

Some say the advantage that Indian textiles enjoy in export markets has narrowed, and this will impact profitability. Dinesh Oswal, Managing Director of Nahar Spinning Mills, says the current fiscal year will be challenging. “We were alive due to rupee depreciation, which helped us be competitive in the export market,” he says. “Exports to China helped prevent a glut in the Indian market. This kind of profit may not be sustainable now.”

Tanu Sharma, Associate Director, India Ratings, says:

“The benefit of rupee depreciation, which had made Indian exporters globally competitive, has mellowed down, but not all are affected. Most exporters would have hedged the currency. They also tend to renegotiate prices with declining advantage of a weaker rupee.” Sharma adds that overall, there seems to be no slowdown in export demand, but there will be pricing pressure because of the exchange rate and a possible change in Chinese policy to reduce reliance on cotton and yarn imports. ♦

@ajaymodibt



VARUN SHOOR,
Founder/CEO, Kayako

**"I WOULD
HAVE GROWN
FASTER WITH
VC FUNDING,
BUT I WOULD
HAVE MADE
MISTAKES"**

Going it alone: Shoor shot at Kayako's Gurgaon office

VIVAN MEHRA/www.indiatodayimages.com



Video interview with Kayako's Varun Shoor at businesstoday.in/kayako-shoor

ON THEIR OWN FEET

Why some entrepreneurs delay or even turn down VC funding for their start-ups.

By TASLIMA KHAN

Varun Shoor built Kayako, an online help desk software company, from scratch. The 30-year-old from Jalandhar launched his business in 2001 – with no external funding – while still in high school. Denied seed capital from his father, Shoor started out with an about-to-expire domain name 'Kayako' from an Internet chat room, web-hosting from a friend's company and a payment gateway service from 2Checkout.com, a start-up then. The timing was perfect. The modes of customer contact with companies were still evolving and

there was a growing demand for customer support software.

Shoor depended on revenues from customers to gradually scale up his business. Kayako's business gained heft slowly but surely. Fast forward to 2014. Kayako is a multi-million dollar business. It works with close to 35,000 customers across the globe, from the US and Europe to Afghanistan, Brazil and Africa. Its roster of customers includes NASA, MTV, Georgetown University, Kraft Foods and Pearson.

"Depending only on customer generated cash meant things moved really slowly, even moving to a formal office. Cash was literally god which implied being extremely careful, calculative and diligent in taking

decisions," says Shoor. "No matter what, the bottom-line was to be cash positive and have enough cash for contingencies," he added. Just a two people team till 2005, Kayako graduated to an office in Jalandhar and expanded to 10 people only when its business gained traction – from almost zero to 40 orders a week and 1,000 clients.

Shoor points out that Kayako's growth could have been more aggressive midway if the company had pumped in a few million dollars from venture capitalists (VCs). The example of his competitors help to drive home the point. For example, Chennai-based Freshdesk Technologies, founded in 2010, has 210 employees, more than 21,000 cus-

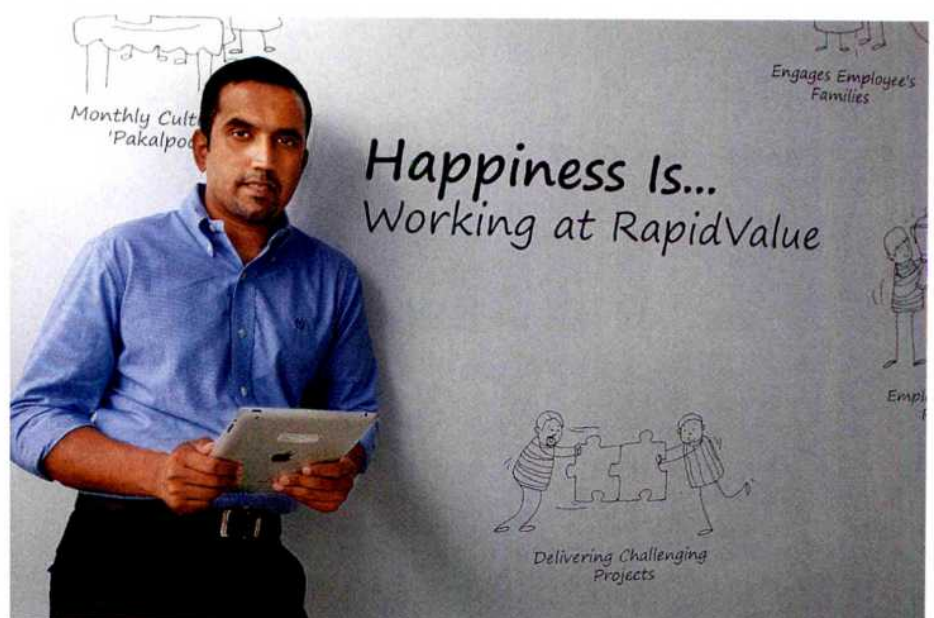
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tomers and has raised \$13 million from Accel and Tiger Global Management. However, for Kayako, which is only now planning to raise capital by the year-end, it was a conscious decision to stay frugal until it had solid fundamentals – a strong, market-proven product and senior management in place to grow the business. “Now we know how to use the money better, deliver better to the board and command a much higher valuation,” says Shoor, who plans to reach annual revenues of \$100 million in five years.

Following One's Passion

Indeed, there are a small and growing number of entrepreneurs who have preferred to tread their own path by bootstrapping their ventures. In other words, self funding a start-up or running it on operating revenues rather than getting in investors and following their vision. Consider the example of Bangalore-based Greytip Software. It was launched in November 1994 by two batchmates at Sri Jayachamarajendra College Of Engineering, Mysore – Girish Rowjee and Ahmed Sayeed Anjum. The software company had approached VCs in the past but its focus on the domestic market turned investors

RAJESH PADINJAREMADAM, CEO, RapidValue

RAISING FUNDS IN A NASCENT MARKET COULD HAVE BEEN LIKE KICK-STARTING A ROCKET SHIP WHICH COULD GO IN THE WRONG DIRECTION

away. “VCs always thought an India-only model would not work. That had not been proven,” says Rowjee. “For them generating 10x returns (10 times the investment) in five years was priority, it was not the same for us. The meeting of minds just didn't work out.” The company still managed to survive and grow, changing business models in the process.

Greytip began by selling HR and payroll management software to large companies in India. Brooke Bond Lipton India, later acquired by Unilever, was its first customer in January 1995. Greytip was processing upwards of 250,000 pay slips until 2007 when it realised it was becoming tough to scale up the business at a one-time purchase price in the range of ₹75,000 to a lakh. The company had to think creatively to survive. It had to inherently answer two critical questions – how to sell

software at a much more affordable price and how to reach out to small businesses, the target customers for low-cost software.

The company channelled over ₹40 lakh, generated from large clients, into new product development and developed HR software as an Application Service Provider (ASP) model (now the technology has evolved to a cloud-based software application) which could be charged at ₹20 per employee per month. “It could be as much as buying tea for a worker,” says Rowjee. Greytip's closest competitors were offering software at ₹50 per employee per month.

Keeping prices low and still remaining competitive meant reducing costs as well. The company reduced

the cost of sales by developing a product that met the needs of most customers without many iterations. “We also cut down the on-boarding time for the customer (time between selling to the customer and getting him to pay) and made sure we collect most of the money we were billing on time,” says Rowjee.

Initially, the adoption of the software in the small and medium enterprises (SME) market was very slow but picked up in 2011 when cloud-based solutions became much more popular. “While in four years until 2011 we had 300 paying customers, in 2012 we notched up 600 and in 2013 it was 1,150 customers,” says Rowjee. Greytip had revenues of ₹10 crore in 2013/14 and is targeting about ₹40 crore in 2015/16. Significantly, even now more than 90 per cent of its customers are Indian SMEs.

Most bootstrapped start-ups have

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realised the need to get their focus right. For Shashank ND, Founder of clinic management software company Practo in 2008 while still in college, the right work culture, maintaining a sharp focus on core competency and using cash efficiently, helped in doing first things first – proving the product and building a strong team. “One essential thing in bootstrapping is to have founders put some skin in the game (put in seed capital). That makes them serious,” says Shashank. “So, we had everyone pooling in some money. Second, we set only two deliverables for everyone – either you were selling or writing software codes. This ensured that we were close to the core aspects of the business.” The small team of eight people even avoided networking events, to stay on the job.

Practo remained a self funded venture for Shashank for a couple of years. In that period his venture got a hundred paying customers on board and put a strong team in place. This helped in persuading VCs to put funds into his start-up. “It was initially very difficult to convince VCs but they noticed how efficiently we used our own capital and that clicked for us,” says Shashank, who has raised \$4 million from Sequoia Capital in small tranches since 2010. “They thought that these guys can run much longer with a little more money,” adds Shashank.

Evolving with the Market

Indeed, bootstrapping your venture until the market matures and the company finds its feet can sometimes be a wise decision. RapidValue, a mobility solutions start-up, is an example. The company helps customers integrate various functions such as purchase order management, inventory management, sales order management, etc., on the mobile. The Kochi and US-based venture started off in 2009, with three founders – Indian Institute of Management batchmates Rajesh Padinjaremadam, Sirish Kosaraju and Rinish K. Nalini.

The three pooled in their savings and took some money from family and friends to set up a small office, a year later.

Padinjaremadam, who claims to be growing at 90 per cent year-on-year in revenues over the last few years, thinks raising capital midway could not have helped him grow any faster in an expanding market.

CHARTING THEIR OWN COURSE

DNA of successful bootstrapped companies

- They follow their promoters' vision, not someone else's
- They have a product that starts to sell from day one
- They manage cash efficiently
- They fund growth out of the customer's pocket
- They find creative ways to survive

“2009 was the time we thought mobile was something that will change the world. It was the same as Internet growth in 1998/99. Also the economic slowdown helped in a way because customers were more risk-taking,” says Padinjaremadam. Also, the company kept a close tab on the market – a must for bootstrapped ventures – and focused only on large enterprises and funded start-ups which have the budget to invest in new solutions. This helped RapidValue track what its target customers want.

RapidValue's clients now includes American for-profit institution of higher learning University of

Phoenix, medical device firm Applied Medicals, television broadcasting company Sinclair Broadcast Group and DU telecom in Dubai, besides some Fortune 500 companies. It raised ₹25 crore from venture firm Helion only in May this year. Staying bootstrapped so far was a conscious decision because now there is much more clarity on how the market is shaping up compared with two years back when the mobile strategy of most companies was still on the drawing board. “Now we see much more planned and budgeted decisions for getting on to mobile,” he says. “Raising funds in a nascent market, could have been like kick-starting a rocket ship, which could go in the wrong direction.” That could have meant hiring more people in the team which was not required or investing in a technology that was too early for the market.

Whether you are bootstrapped or backed by VCs, the choice is determined by how fast you need to grow. For bootstrapped companies, the key concerns are survival and cash-efficient growth, for venture-backed companies it is market share and how big the company can become. Topline or profitability takes a back seat. “Start-ups have high failure rates and venture-funded start-ups seem to have a higher rate of failure than bootstrapped companies,” says Saras Sarasvathy, Professor of Entrepreneurship at University of Virginia's Darden School of Business.

Funding is anyway hard to come by for most entrepreneurs. Consider this. Some 3,500 companies applied for funding to Indian Angel Network, India's largest network of angel investors, in 2013, but only 18 managed to get seed capital. Hence it makes perfect sense for start-ups to learn the basics of bootstrapping to keep the focus right, grow sustainably in the early stages and get much better valuation when they eventually raise capital. ♦

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Looking up: SilverPush co-founder Mudit Seth with his team

IT ALL ADS UP

SilverPush's technology lets advertisers reach the consumer on multiple devices. It could disrupt digital advertising, but will face stiff competition from global pioneers. By TASLIMA KHAN

You may have seen an ad follow you from one website to another. For example, if you browsed shoes on a website on your computer, then hopped over to another site, the shoes you looked at earlier may show up in an ad on the second site. In the world of digital advertising, that is known as re-targeting. It works by dropping cookies (software code) on your browser to track what websites you visit, and uses the data to help advertisers follow you. Now, if you see the same ad on your mobile browser too, it's not just coincidence. This is cross-device re-targeting, and the technology behind it solves a big problem advertisers face: how to track users as they increasingly access the Internet on multiple devices throughout the day. "For advertisers, the boundaries between mobile and PC have started to disappear," says Manish Vij, Founder and CEO of digital media network Smile Vun Group.

SilverPush, a start-up based in Gurgaon, near Delhi, and Mountain View, California, is among the few companies in the world that are trying to perfect cross-device re-targeting with proprietary technology. Others like it include Tapad and Drawbridge, both US-based and both founded in 2010.

Data on desktop and mobile usage patterns are matched up to build a profile of the individual user. The profile is then used to serve advertisements to the user based on her or his previous purchases. Data includes gender, age, the products that interest the user, when she or he likes to search or shop, and location. SilverPush has created profiles of around 300 million mobile phones and tablets across the US and India. These are based on data collected from advertising exchanges such as US- and Pune-based Pubmatic, and US-based Smaato, real-time bidding platforms that help companies maximise ad revenues. Data is also collected from data management platforms such as Lotame and BlueKai, which provide data to marketers.

But the real task is to analyse the data and identify common users across desktops and mobile devices.



SilverPush says it uses proprietary algorithms to pair devices and serve ads. "We are able to match 70 to 80 per cent of desktop users to their mobile phones," says Mudit Seth, Chief Marketing Officer (CMO) and co-founder of SilverPush, which launched cross-device campaigns in early April. "The target is to get active usage of their mobile apps and mobile websites, since re-targeting also helps revive applications that have been downloaded but are not used often."

After working with 20-odd companies in India (including Domino's India, Airtel and Aircel) and the US (such as Toyota and Olay) on mobile re-targeting campaigns, SilverPush pivoted its technology to cross-device re-targeting a few months ago. It currently earns revenues of \$40,000 (₹24 lakh) a month, through mobile website-to-app re-targeting.

The 12-person startup is expanding its sales team, which will be split between its India and US offices. It is reaching out directly to digital heads, CMOs and ad agencies for business. The sales pitch varies depending on the customer, and the promised outcome varies across campaigns. For example, for mobile apps, the goal is to increase user engagement and signups, while for an auto company, a promised outcome would be to increase test drives for new launches.

Several companies, such as digital media outfit Tyroo and mobile advertising exchange Vserv, already offer mobile website-to-app re-targeting solutions, although that is not their core business. SilverPush CEO and IIT-Delhi alumnus Hitesh Chawla says: "We wanted to solve a much bigger problem." His company currently runs cross-device campaigns for two US-based clients: education company Rosetta Stone and gaming outfit Flywheel. His colleague Seth says: "We aim to work with about 70 companies by this year-end for cross-device campaigns." SilverPush has so far raised seed funding of \$1.6 million from start-up accelerators Global Super Angels, 500 Startups, IDG Ventures and Ronnie Screwvala's Unilazer Ventures.

Research firm Gartner estimates that spending on global mobile advertising will reach \$18 billion this year.

up from the estimated \$13.1 billion in 2013. The cross-device re-targeting market is expected to grow fast, too. Advertisers are now highly focused on returns on investment in their digital advertising budget, and cross-device technology promises far better returns than regular advertising campaigns, which cannot identify a user across devices. Tapad estimates that cross-screen campaigns produce 95 per cent brand recall, compared to just 55 per cent in TV-only ones. Cross-device campaigns, according to Tapad, could be worth \$77 billion by 2018.

Siddharth Puri, CEO of Tyroo Media, an angel investor in SilverPush, says: "Re-targeting helps advertisers save money, and enables them to reach only a curated set of consumers who are already interested in the brand, rather than carpet-bombing everyone with the same ad." He adds that 10 per cent of global digital ad spending by online retailers and travels sites is for re-targeting in all forms—desktop, mobile and cross-device.

Some experts say mobile or cross-device re-targeting is still a small business, but it is hard to predict what could happen in the fast-changing digital marketing industry. "Cross-device could evolve into the biggest category as far as re-targeting is concerned," says Smile Vun's Vij. There are signs of large companies emerging in desktop-re-targeting. When Paris-based desktop re-targeting company Criteo raised a total of \$280 million in an IPO last year, its valuation was \$1.86 billion (current valuation: \$1.67 billion). And Vizury, a fast-growing desktop re-targeting company based in Bangalore, has raised around \$11 million from multiple investors, including Nokia Growth Partners and Inventus Capital Partners.

A growing market means there is room for several players. In India, there is still relatively little understanding of cross-screen technology, and many companies are wary of campaigns that involve tracking users' online behaviour. "Though some e-commerce companies are heavily investing in re-targeting, we are yet seeing if customers will like it or not. There are privacy issues," says Amarjit Singh Batra, CEO at classifieds site Olx.in.

However, SilverPush dismisses privacy concerns, saying the company does not get personal data in the

form of email IDs or mobile numbers. CMO Seth says: "The data we get is only in encrypted form. Customers do have the choice to opt out of seeing advertisements, by clicking on a link embedded within the advertisements."

Since SilverPush is largely focused on the US re-targeting market, it faces stiff competition from the likes of Tapad and Drawbridge, which have already built scale and are growing fast. Tapad, who says its 2013 revenues were around \$23 million, has so far raised \$13 million

from investors, and has implemented cross-screen campaigns for 200 of the Fortune 500 brands, including Dell, Audi and American Airlines. Close rival Drawbridge, which has raised a total of about \$20.5 million investors including Sequoia Capital, has done more than 400 campaigns for clients in North America, Europe, China and Australia.

All re-targeting players have proprietary technology whose holy grail is to accurately identify the same user on multiple devices. Tapad, whose Device Graph technology processes billions of data points a month to identify a common user across devices, claims an 80 to 90 per cent accuracy rate.

It is yet unclear how effective SilverPush's technology is, but since re-targeting campaigns are strictly focused on guaranteeing returns for advertisers, improving clients' sales will be critical. Marketers are no longer satisfied with consumers clicking on ads. "We like to compare sales revenue generated after running the campaign and the investment in the campaign," says Harneet Singh Rajpal, Vice President - Marketing at Domino's India. The pizza company ran a couple of re-targeting campaigns with SilverPush, but backed off later because

return on investment could not be established. That will be the challenge for Chawla, SilverPush's CEO.

Advertising giants such as Google are also testing the waters with cross-device re-targeting. Google is testing a technology for desktop-to-mobile re-targeting services to brands with more than 100,000 customers registered on their websites (including e-commerce companies). The technology, which could replace cookies, will allow advertisers to serve ads on mobile devices to people who have visited their websites at least once. ♦

HOW CROSS-DEVICE ADVERTISING HELPS

What the providers of such services say about the benefits



Targets users across all Internet-connected devices



Better return on investment in digital campaigns



Higher brand recall



Save money by reaching only interested customers, not everyone

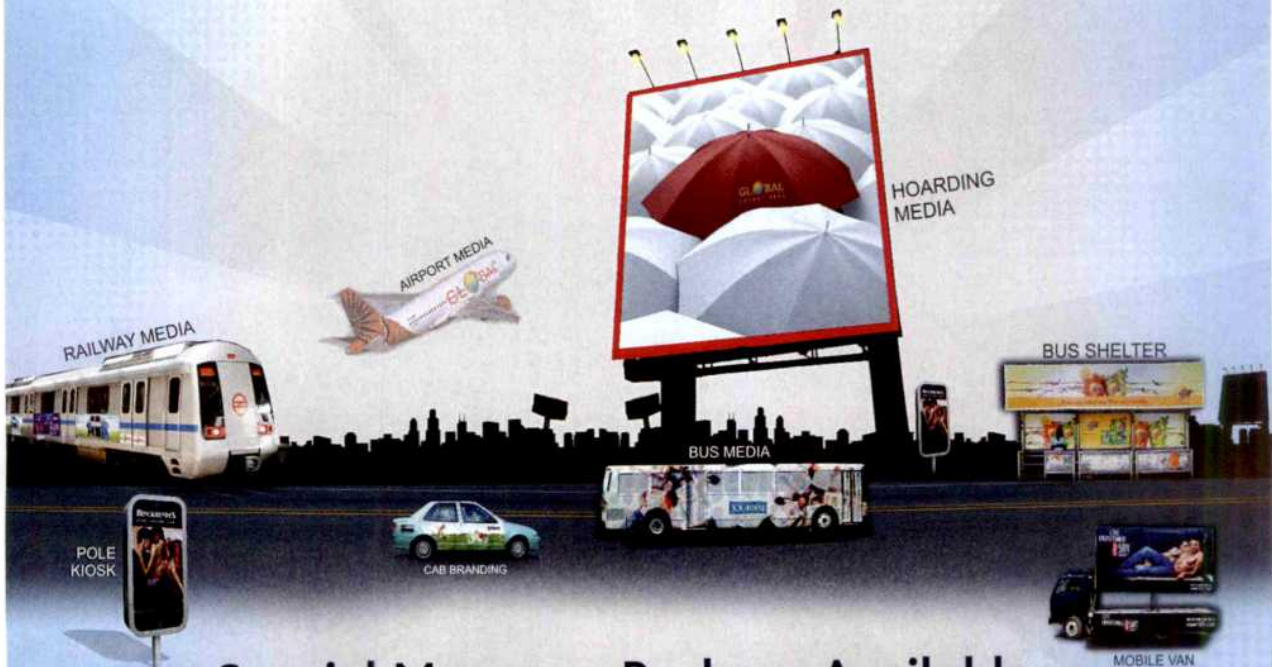
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How Netflix Reinvented HR

Trust people, not policies. Reward candour. And throw away the standard playbook. By PATTY MCCORD

ILLUSTRATIONS BY AJAY THAKURI



Sheryl Sandberg has called it one of the most important documents ever to come out of Silicon Valley. It's been viewed more than five million times on the web. But when Reed Hastings and I (along with some colleagues) wrote a PowerPoint deck explaining how we shaped the culture and motivated performance at Netflix, where Hastings is CEO and I was chief talent officer from 1998 to 2012, we had no idea it would go viral. We realised that some of the talent management ideas we'd pioneered, such as the concept that workers should be allowed to take whatever vacation time they feel is appropriate, had been seen as a little crazy (at least until other companies started adopting them). But we were surprised that an unadorned set of 127 slides – no music, no animation – would become so influential.

People find the Netflix approach to talent and culture compelling for a few reasons. The most obvious one is that Netflix has been really successful: During 2013 alone its stock more than tripled, it won three Emmy awards, and its US subscriber base grew to nearly 29 million. All that aside, the approach is compelling because it derives from common sense. In this article I'll go beyond

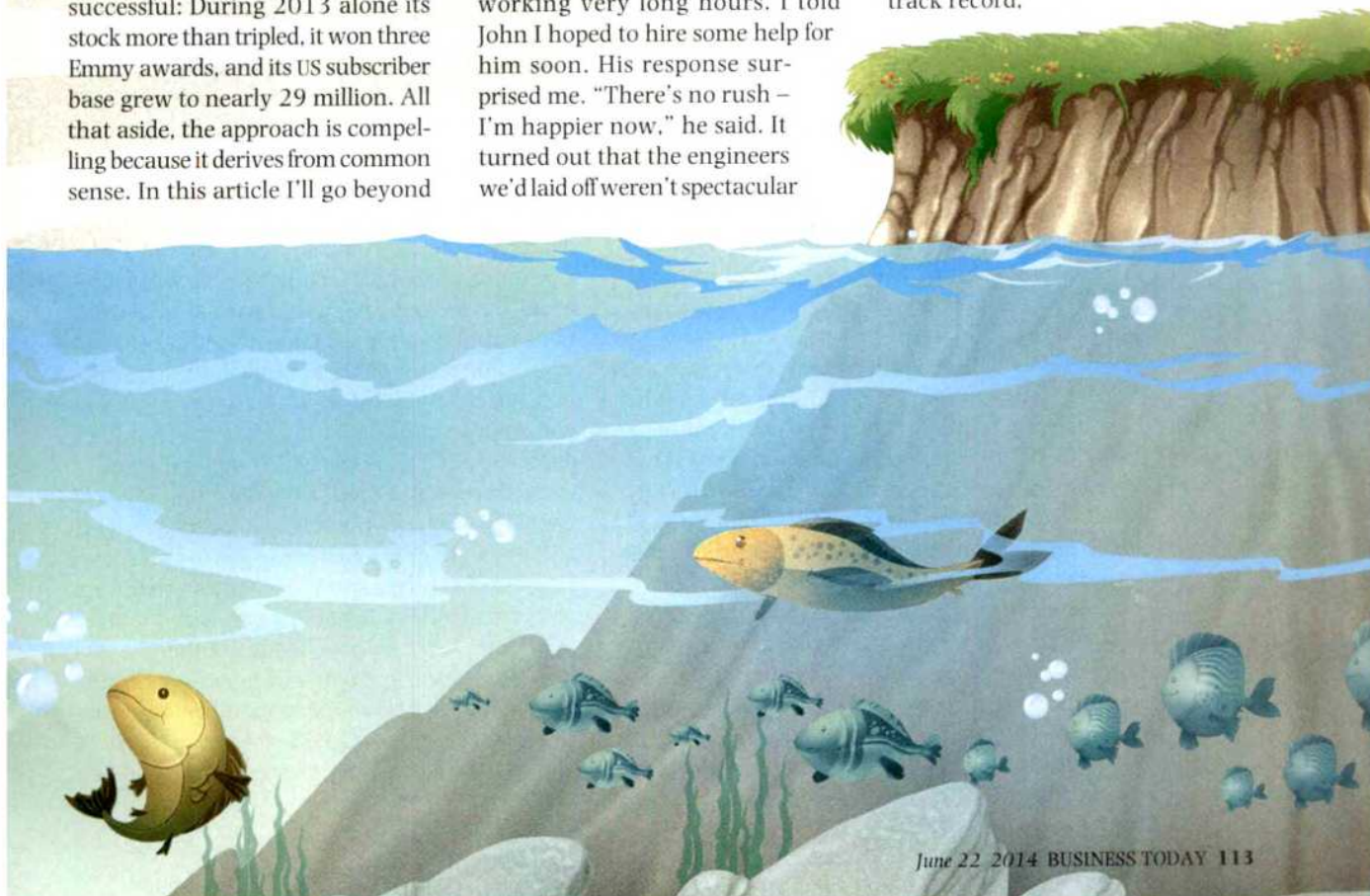
the bullet points to describe five ideas that have defined the way Netflix attracts, retains, and manages talent. But first I'll share two conversations I had with early employees, both of which helped shape our overall philosophy.

The first took place in late 2001. Netflix had been growing quickly: We'd reached about 120 employees and had been planning an IPO. But after the dot-com bubble burst and the 9/11 attacks occurred, things changed. It became clear that we needed to put the IPO on hold and lay off a third of our employees. It was brutal. Then, a bit unexpectedly, DVD players became the hot gift that Christmas. By early 2002 our DVD-by-mail subscription business was growing like crazy. Suddenly we had far more work to do, with 30 per cent fewer employees.

One day I was talking with one of our best engineers, an employee I'll call John. Before the layoffs, he'd managed three engineers, but now he was a one-man department working very long hours. I told John I hoped to hire some help for him soon. His response surprised me. "There's no rush – I'm happier now," he said. It turned out that the engineers we'd laid off weren't spectacular

– they were merely adequate. John realised that he'd spent too much time riding herd on them and fixing their mistakes. "I've learned that I'd rather work by myself than with subpar performers," he said. His words echo in my mind whenever I describe the most basic element of Netflix's talent philosophy: The best thing you can do for employees – a perk better than foosball or free sushi – is hire only "A" players to work alongside them. Excellent colleagues trump everything else.

The second conversation took place in 2002, a few months after our IPO. Laura, our bookkeeper, was bright, hardworking, and creative. She'd been very important to our early growth, having devised a system for accurately tracking movie rentals so that we could pay the correct royalties. But now, as a public company, we needed CPAs and other fully credentialed, deeply experienced accounting professionals – and Laura had only an associate's degree from a community college. Despite her work ethic, her track record,





The company's expense policy is five words long: "Act in Netflix's best interests"

and the fact that we all really liked her, her skills were no longer adequate. Some of us talked about jury-rigging a new role for her, but we decided that wouldn't be right.

So I sat down with Laura and explained the situation – and said that in light of her spectacular service, we would give her a spectacular severance package. I'd braced myself for tears or histrionics, but Laura reacted well: She was sad to be leaving but recognised that the generous severance would let her regroup, retrain, and find a new career path. This incident helped us create the other vital element of our talent management philosophy: If we wanted only "A" players on our team, we had to be willing to let go of people whose skills no longer fit, no matter how valuable their contributions had once been. Out of fairness to such people – and, frankly, to help us overcome our discomfort with discharging them – we learned to offer rich severance packages.

With these two overarching principles in mind, we shaped our approach to talent using the five tenets below.

Hire, Reward, and Tolerate Only Fully Formed Adults

Over the years we learned that if we asked people to rely on logic and common sense instead of on formal policies, most of the time we would get better results, and at lower cost. If you're careful to hire people who will put the company's interests first, who understand and support the desire for a high-performance workplace, 97 per cent of your employees will do the right thing. Most companies spend endless time and money writing and enforcing HR policies to deal with problems the other three per cent might cause. Instead, we tried really hard to not hire those people, and we let them go if it turned out we'd made a hiring mistake.

Adultlike behaviour means talking openly about issues with your boss, your colleagues, and your subordinates. It means recognising that even in companies with reams of HR policies, those policies are frequently skirted as managers and their reports work out what makes sense on a case-by-case basis.

Let me offer two examples.

When Netflix launched, we had a standard paid-time-off policy: People got 10 vacation days, 10 holidays, and a few sick days. We used an honour system – employees kept track of the days they took off and let their managers know when they'd be out. After we went public, our auditors freaked. They said Sarbanes-Oxley mandated that we account for time off. We considered instituting a formal tracking system. But then Reed asked, "Are companies *required* to give time off? If not, can't we just handle it informally and skip the accounting rigmarole?" I did some research and found that, indeed, no California law governed vacation time.

So instead of shifting to a formal system, we went in the opposite direction: Salaried employees were told to take whatever time they felt was appropriate. Bosses and employees were asked to work it out with one another. (Hourly workers in call centres and warehouses were given a more structured policy.) We did provide some guidance. If you worked in accounting or finance, you shouldn't plan to be out during the beginning or the end of a quarter, because those were busy times. If you wanted 30 days off in a row, you needed to meet with HR. Senior leaders were urged to take vacations and to let people know about them – they were role models for the policy. (Most were happy to comply.) Some people worried about whether the system would be inconsistent – whether some bosses would allow tons of time off while others would be stingy. In general, I worried more about fairness than consistency, because the reality is that in any

organisation, the highest-performing and most valuable employees get more leeway.

We also departed from a formal travel and expense policy and decided to simply require adult-like behaviour there, too. The company's expense policy is five words long: "Act in Netflix's best interests." In talking that through with employees, we said we expected them to spend company money frugally, as if it were their own. Eliminating a formal policy and forgoing expense account police shifted responsibility to frontline managers, where it belongs. It also reduced costs: Many large companies still use travel agents (and pay their fees) to book trips, as a way to enforce travel policies. They could save money by letting employees book their own trips online. Like most Netflix managers, I had to have conversations periodically with employees who ate at lavish restaurants (meals that would have been fine for sales or recruiting, but not for eating alone or with a Netflix colleague). We kept an eye on our IT guys, who were prone to buying a lot of gadgets. But overall we found that expense accounts are another area where if you create a clear expectation of responsible behaviour, most employees will comply.

Tell the Truth About Performance

Many years ago we eliminated formal reviews. We had held them for a while but came to realise they didn't make sense – they were too ritualistic and too infrequent. So we asked managers and employees to have conversations about performance as an organic part of their work. In many functions – sales, engineering, product development – it's fairly obvious how well people are doing. (As companies develop better analytics to measure performance, this becomes even truer.) Building a bureaucracy and elaborate rituals around measuring performance usually doesn't improve it.

Traditional corporate performance reviews are driven largely by fear of litigation. The theory is that if you want to get rid of someone, you need a paper trail documenting a history of poor achievement. At many companies, low performers are placed on "Performance Improvement Plans." I detest PIPs. I think they're fundamentally dishonest: They never accomplish what their name implies.

One Netflix manager requested a PIP for a quality assurance engineer named Maria, who had been hired to help develop our streaming service. The technology was new, and it was evolving very quickly. Maria's job was to find bugs. She was fast, intuitive, and hardworking. But in time we figured out how to automate the QA tests. Maria didn't like automation and wasn't particularly good at it. Her

new boss (brought in to create a world-class automation tools team) told me he wanted to start a PIP with her.

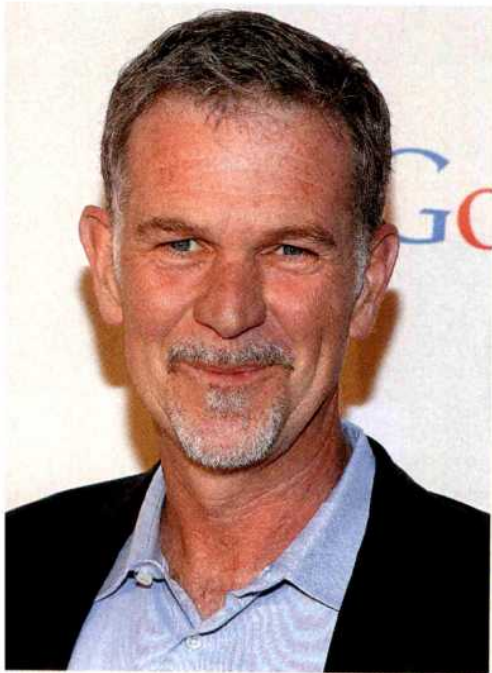
I replied, "Why bother? We know how this will play out. You'll write up objectives and deliverables for her to achieve, which she can't, because she lacks the skills. Every Wednesday you'll take time away from your real work to discuss (and document) her shortcomings. You won't sleep on Tuesday nights, because you'll know it will be an awful meeting, and the same will be true for her. After a few weeks there will be tears. This will go on for three months. The entire team will know. And at the end you'll fire her. None of this will make any sense to her, because for five years she's been consistently rewarded for being great at her job – a job that basically doesn't exist anymore. Tell me again how Netflix benefits?"

Traditional corporate performance reviews are driven largely by fear of litigation

"Instead, let's just tell the truth: Technology has changed, the company has changed, and Maria's skills no longer apply. This won't be a surprise to her: She's been in the trenches, watching the work around her shift. Give her a great severance package – which, when she signs the documents, will dramatically reduce (if not eliminate) the chance of a lawsuit." In my experience, people can handle anything as long as they're told the truth – and this proved to be the case with Maria.

When we stopped doing formal performance reviews, we instituted informal 360-degree reviews. We kept them fairly simple: People were asked to identify things that colleagues should stop, start, or continue. In the beginning we used an anonymous software system, but over time we shifted to signed feedback, and many teams held their 360s face-to-face.

HR people can't believe that a company the size of Netflix doesn't hold annual reviews. "Are you making this up just to upset us?" they ask. I'm not. If you talk simply and honestly about performance on a regular basis, you can get good results – probably better ones than a company that grades everyone on a five-point scale.



GETTY IMAGES

Crafting a Culture of Excellence

Netflix founder and CEO Reed Hastings discusses the company's unconventional HR practices

HBR: *Why did you write the Netflix culture deck?*

Hastings: It's our version of *Letters to a Young Poet* for budding entrepreneurs. It's what we wish we had understood when we started. More than 100 people at Netflix have made major contributions to the deck, and we have more improvements coming.

Many of the ideas in it seem like common sense, but they go against traditional HR practices. Why aren't

companies more innovative when it comes to talent management?

As a society, we've had hundreds of years to work on managing industrial firms, so a lot of accepted HR practices are centred in that experience. We're just beginning to learn how to run creative firms, which is quite different. Industrial firms thrive on reducing variation (manufacturing errors); creative firms thrive on increasing variation (innovation).

What reactions have you

Managers Own the Job of Creating Great Teams

Discussing the military's performance during the Iraq War, Donald Rumsfeld, the former defence secretary, once famously said, "You go to war with the army you have, not the army you might want or wish to have at a later time." When I talk to managers about creating great teams, I tell them to approach the process in exactly the opposite way.

In my consulting work, I ask managers to imagine a documentary about what their team is accomplishing six months from now. What specific results do they see? How is the work different from what the team is doing today? Next I ask them to think about the skills needed to make the images in the movie become reality. Nowhere in the early stages of the process do I advise them to think about the team they actually have. Only after they've done the work of envisioning the ideal outcome and the skill set necessary to achieve it should they analyse how well their existing team matches what they need.

If you're in a fast-changing business environment, you're probably looking at a lot of mismatches. In that case, you need to have honest conversations about letting some team members find a place where their skills are a better fit. You also need to recruit people with the right skills.

We faced the latter challenge at Netflix in a fairly dramatic way as we began to shift from DVDs by mail to a streaming service. We had to store massive volumes of files in the cloud and figure out how

huge numbers of people could reliably access them. (By some estimates, up to a third of peak residential Internet traffic in the US comes from customers streaming Netflix movies.) So we needed to find people deeply experienced with cloud services who worked for companies that operate on a giant scale – companies like Amazon, eBay, Google, and Facebook, which aren't the easiest places to hire someone away from.

Our compensation philosophy helped a lot. Most of its principles stem from ideals described earlier: Be honest, and treat people like adults. For instance, during my tenure Netflix didn't pay performance bonuses, because we believed that they're unnecessary if you hire the right people. If your employees are fully formed adults who put the company first, an annual bonus won't make them work harder or smarter. We also believed in market-based pay and would tell employees that it was smart to interview with competitors when they had the chance, in order to get a good sense of the market rate for their talent. Many HR people dislike it when employees talk to recruiters, but I always told employees to take the call, ask how much, and send me the number – it's valuable information.

In addition, we used equity compensation much differently from the way most companies do. Instead of larding stock options on top of a competitive salary, we let employees choose how much (if any) of their compensation would be in the form of equity. If employees wanted stock options, we reduced their salaries accordingly. We believed that they were

gotten from your peers to steps such as abolishing formal vacation and performance review policies? In general, do you think other companies admire your HR innovations or look askance at them?

My peers are mostly in the creative sector, and many of the ideas in our culture deck came from them. We are all learning from one another.

Which idea in the culture deck was the hardest sell

with employees?

"Adequate performance gets a generous severance package." It's a pretty blunt statement of our hunger for excellence.

Have any of your talent management innovations been total flops?

Not so far.

Patty talks about how leaders should model appropriate behaviours to help people adapt to an environment

with fewer formal controls. With that in mind, how many days off did you take in 2013?

"Days off" is a very industrial concept, like being "at the office." I find Netflix fun to think about, so there are probably no 24-hour periods when I never think about work. But I did take three or four week-long family trips over the past year, which were both stimulating and relaxing.

sophisticated enough to understand the trade-offs, judge their personal tolerance for risk, and decide what was best for them and their families. We distributed options every month, at a slight discount from the market price. We had no vesting period – the options could be cashed in immediately. Most tech companies have a four-year vesting schedule and try to use options as "golden handcuffs" to aid retention, but we never thought that made sense. If you see a better opportunity elsewhere, you should be allowed to take what you've earned and leave. If you no longer want to work with us, we don't want to hold you hostage.

We continually told managers that building a great team was their most important task. We didn't measure them on whether they were excellent coaches or mentors or got their paperwork done on time. Great teams accomplish great work, and recruiting the right team was the top priority.

Leaders Own the Job of Creating the Company Culture

After I left Netflix and began consulting, I visited a hot start-up in San Francisco. It had 60 employees in an open loft-style office with a foosball table, two pool tables, and a kitchen, where a chef cooked lunch for the entire staff. As the CEO showed me around, he talked about creating a fun atmosphere. At one point I asked him what the most important value for his company was. He replied, "Efficiency."

"OK," I said. "Imagine that I work here, and it's 2.58 p.m. I'm playing an intense game of pool, and I'm winning. I estimate that I can finish the game in five minutes. We have a meeting at 3 p.m. Should I stay and win the game or cut it short for the meeting?"

"You should finish the game," he insisted. I wasn't surprised; like many tech start-ups, this was a casual place, where employees wore hoodies and brought pets to work, and that kind of casualness often extends to punctuality. "Wait a second," I said. "You told me that efficiency is your most important cultural value. It's not efficient to delay a meeting and keep coworkers waiting because of a pool game. Isn't there a mismatch between the values you're talking up and the behaviours you're modelling and encouraging?"

When I advise leaders about molding a corporate culture, I tend to see three issues that need attention. This type of mismatch is one. It's a particular problem at start-ups, where there's a premium on casualness that can run counter to the high-performance ethos leaders want to create. I often sit in on company meetings to get a sense of how people operate. I frequently see CEOs who are clearly winging it. They lack a real agenda. They're working from slides that were obviously put together an hour before or were recycled from the previous round of VC meetings. Workers notice these things, and if they see a leader who's not fully prepared and who relies on charm, IQ, and improvisation, it affects how they



perform, too. It's a waste of time to articulate ideas about values and culture if you don't model and reward behaviour that aligns with those goals.

The second issue has to do with making sure employees understand the levers that drive the business. I recently visited a Texas start-up whose employees were mostly engineers in their twenties. "I bet half the people in this room have never read a P&L," I said to the CFO. He replied, "It's true – they're not financially savvy or business savvy, and our biggest challenge is teaching them how the business works." Even if you've hired people who want to perform well, you need to clearly communicate how the company makes money and what behaviours will drive its success. At Netflix, for instance, employees used to focus too heavily on subscriber growth, without much awareness that our expenses often ran ahead of it: We were spending huge amounts buying DVDs, setting up distribution centres, and ordering original programming, all before we'd collected a cent from our new subscribers. Our employees needed to learn that even though revenue was growing, managing expenses really mattered.

The third issue is something I call the split personality start-up. At tech companies this usually manifests itself as a schism between the engineers and the sales team, but it can take other forms. At Netflix, for instance, I sometimes had to remind people that there were big differences between the salaried professional staff at headquarters and the hourly workers in the call centres. At one point our finance team wanted to shift the whole company to direct-deposit paychecks, and I had to point out that some of our hourly workers didn't have bank accounts. That's a small example, but it speaks to a larger point: As leaders build a company culture, they need to be aware of subcultures that might require different management.



Good Talent Managers Think Like Businesspeople and Innovators First, and Like HR People Last

Throughout most of my career I've belonged to professional associations of human resources executives. Although I like the people in these groups personally, I often find myself disagreeing with them. Too many devote time to morale improvement initiatives. At some places entire teams focus on getting their firm onto lists of "Best Places to Work" (which, when you dig into the methodologies, are really based just on perks and benefits). At a recent conference I met someone from a company that had appointed a "chief happiness officer" – a concept that makes me slightly sick.

During 30 years in business I've never seen an HR initiative that improved morale. HR departments might throw parties and hand out T-shirts, but if the stock price is falling or the company's products aren't perceived as successful, the people at those parties will quietly complain – and they'll use the T-shirts to wash their cars.

Instead of cheerleading, people in my profession should think of themselves as businesspeople. What's good for the company? How do we communicate that to employees? How can we help every worker understand what we mean by high performance?

Here's a simple test: If your company has a performance bonus plan, go up to a random employee and ask, "Do you know specifically what you should be doing right now to increase your bonus?"

If he or she can't answer, the HR team isn't making things as clear as they need to be.

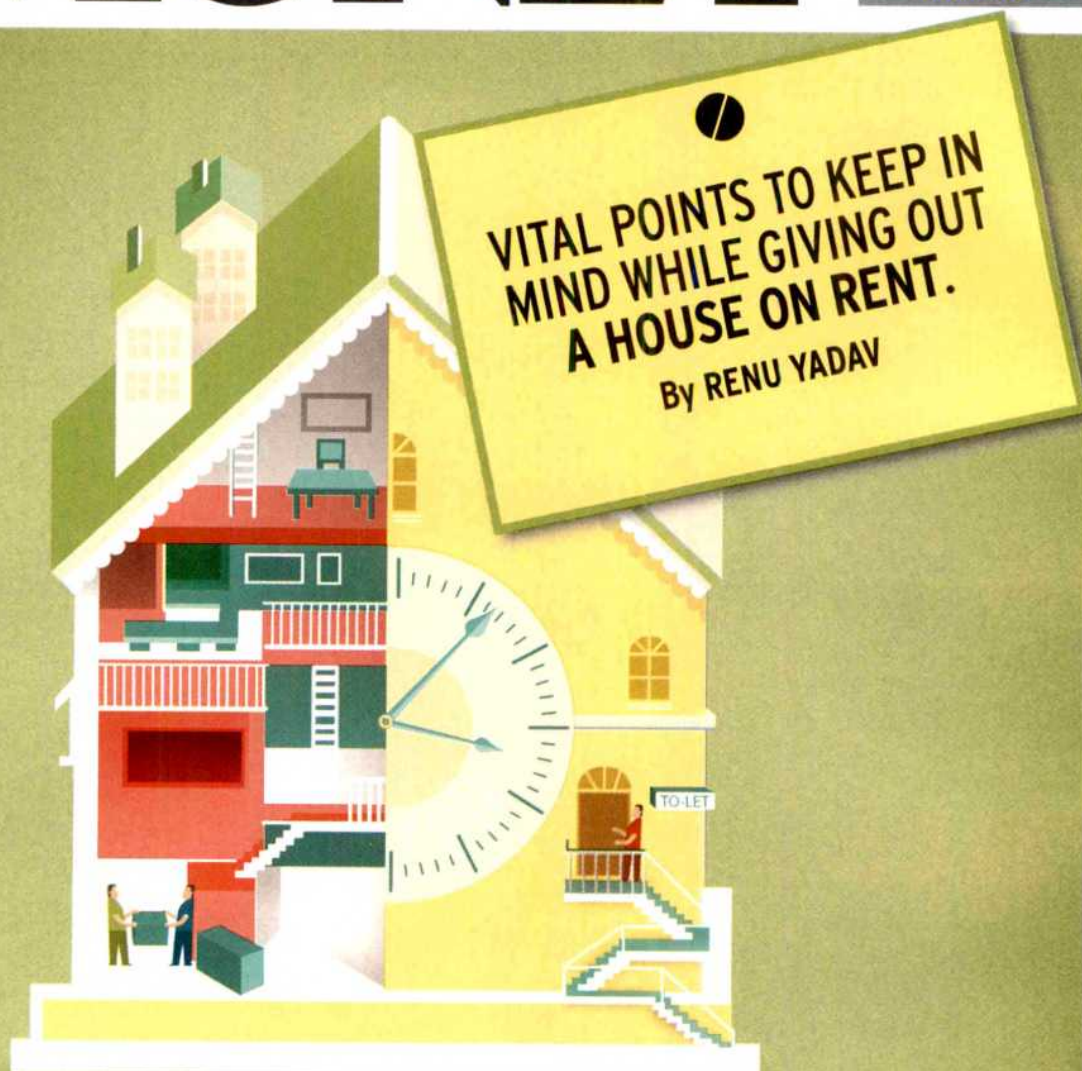
At Netflix I worked with colleagues who were changing the way people consume filmed entertainment, which is an incredibly innovative pursuit – yet when I started there, the expectation was that I would default to mimicking other companies' best practices (many of them antiquated), which is how almost everyone seems to approach HR. I rejected those constraints. There's no reason the HR team can't be innovative too. ♦



Patty McCord is the founder of Patty McCord Consulting and the former chief talent officer at Netflix. This article was published in Harvard Business Review, January-February 2014. Copyright ©2014 Harvard Business School Publishing Corporation. All rights reserved.

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Taming the Tenant

Most people will agree that giving a house on rent is not an easy task. It could become a serious headache if not handled properly.

The common problems include

looking for new tenants every few years, misuse of the premises by the tenant or his refusal to vacate, delay in payment of rent and non-payment of maintenance fee on time. We discuss points that a person should keep in mind while giving his

house on rent so that he can avoid hassles later.

First Steps

The first step is to ascertain the correct rent amount. It is crucial because in such a competitive market you can't ask for more than the market rate. Doing so will put off potential tenants. However, if your house is better maintained and furnished than that of others, you can charge a premium. Sanjay Sharma, Managing Director, Qubrex, says it is easier to determine the rent for a flat in a group housing society than for independent houses. "For group housing societies, one can find the latest figure by asking others (there is more uniformity as all flats are similar). If the furnishings are excellent, you can ask for a premium, but may have to wait longer to find a tenant. For independent houses or floors, it is a trickier, but you can check the rent of nearby properties and arrive at an approximate rent per square feet figure and apply it to your property."

Vineet Kumar Singh, Executive Vice President and Business Head, 99acres.com, says the rent is directly related to the capital value of the property. "The annual rent is 2.5 to three per cent of the capital value and differs according to the location and amenities provided."

"You can also ascertain the rent by looking at the ready reckoner rate. This is specific to each locality and, therefore, a good method to compute the rent," says Shivanand Samant, CEO, Supreme Housing.

Therefore, the main factors that decide the rent are capital value, amenities provided, location



A STITCH IN TIME

While giving out a house on rent

1 Make sure your name is clearly mentioned in the property papers

2 All legal documents should be in your possession

3 Register the deed on stamp paper

4 The stamp paper should be bought in the name of the landlord and not the tenant

5 Both the parties should sign the deed in the presence of a district magistrate or a notary

6 The notice period for termination of the rent agreement must be clearly mentioned

and demand.

How can you let it be known that you want to give your house on rent? In today's high-tech world, it is quite easy to do so. A number of real estate websites, such as 99acres.com, Magicbricks.com and Makaaan.com, provide this service for free. You just need to upload the details of your property and, if possible, photographs on the website and wait for those interested to contact you. It is a good medium because generally house hunters visit these websites to get an idea about rent and the type of houses available. "With online portals charging very less or no commission and offering the facility to sort and search, both owners and renters are going online. Online portals also provide a list of brokers in the locality," says Ashok Mohanani, Chairman and Managing Director, EKTA World, a real estate developer.

Those who are not tech-savvy can advertise in newspapers for a small fee. However, the traditional and most preferred way is to approach a broker. In fact, on online portals, most advertisements are placed by brokers on behalf of clients. This has many advantages. A broker gives personalised services to both the landlord and the tenant. He can also save you a lot of time and effort by helping with the tenant's police verification, preparation of lease agreement. However, this increases costs as he will typically charge half- or one-month rent from both the parties.

"Residential leasing is typically driven by local brokers. This is a local business as brokers have most information about the areas where they operate. Also, if a local broker is in-

involved, one can inspect properties instantly," says A.S. Sivaramakrishnan, Head, Residential Services, CBRE South Asia.

Lease Agreement

A rent agreement is a legal document which binds the landlord and the tenant to comply with the mutually-agreed conditions. It is the most crucial document in case of a dispute between the two.

Therefore, care should be taken in drafting the document. It should state all terms and conditions clearly to avoid any dispute in future. "Take the help of a legal expert to draft the lease agreement. Try doing a reference check and, most important, ensure that a police verification done. It is in the best interest of all stakeholders" says Mohanani of EKTA World.

These are the points to consider while finalising the agreement.

1) Name, address, father's name of both the tenant and the landlord should be clearly mentioned.

2) It should be verified that the lessor is the legal owner of the property, or a person duly authorised by him, or a person authorised by a court to enter into such a contract.

3) The rent should be clearly mentioned (also whether it includes maintenance fee). The quantum of increase in rent and from which date should also be made clear. The mode of payment, whether in cheque or cash, plus the date of payment, is also important. Any interest to be paid in case of delayed payment should also be stated clearly.

4) The period of tenancy should be clearly mentioned. The security amount and the lock-in period are also important. How the amount will be refunded or whether it will be adjusted in the advance rent should also be clearly mentioned.

5) Who will pay water, electricity and maintenance charges is also important.



Vineet Kumar Singh
Executive Vice President and
Business Head, 99acres.com

"The rent is directly related to the capital value of the property. The annual rent is 2.5-3% of the capital value and differs according to the location and amenities provided"

6) In case the flat is furnished, a list of fittings and fixtures should be made and penalty for damage decided in advance. The landlord should also check plumbing, electrical, sanitary fittings, etc., and mention their condition in the agreement. Details of the condition of walls, ceilings and rooftop should also be mentioned so that there is no dispute over damage to the house, if there is any.

7) The purpose of tenancy should be clearly written – whether it will be used for commercial or residential purpose.

8) The process for premature termination of the lease.

9) The agreement must specify the availability of facilities like common passage, roof, park, swimming pool, car parking, library, club, gymnasium, etc., besides the demarcated property, and charges payable, if any, for these.

This list is not exhaustive. The landlord and the tenant can add as many conditions as they want.

After preparing the lease agreement, the most important task is to get it registered. As per Rajeev Aggarwal, Partner, R.A. Law Co. Advocates & Consultants, every lease agreement should be registered because only then it can be used as evidence in the court in case of any litigation. However, as per Section 17 of the Registration Act 1908, it is compulsory to get the agreement registered only if the lease period is more than 11 months. For registration, stamp duty and registration fee have to be paid.

Police Verification

This process helps in background check of the tenant. Not doing this is a punishable offence under Section 188 of the Indian Penal Code. This lowers the risk that the house is not being rented out to a person with criminal background. For this the landlord simply has to fill the verification form and submit it to the local police station along with identification proof of the tenant. The forms are available online on websites of state police departments.

Apart from the above, the landlord should periodically visit the premises to check whether the tenant is violating any condition or if he has sublet the property. If yes, the landlord can demand that he vacate. If the tenant refuses to do so, the landlord can approach the authority which oversees disputes related to rent, with all the documents. ♦

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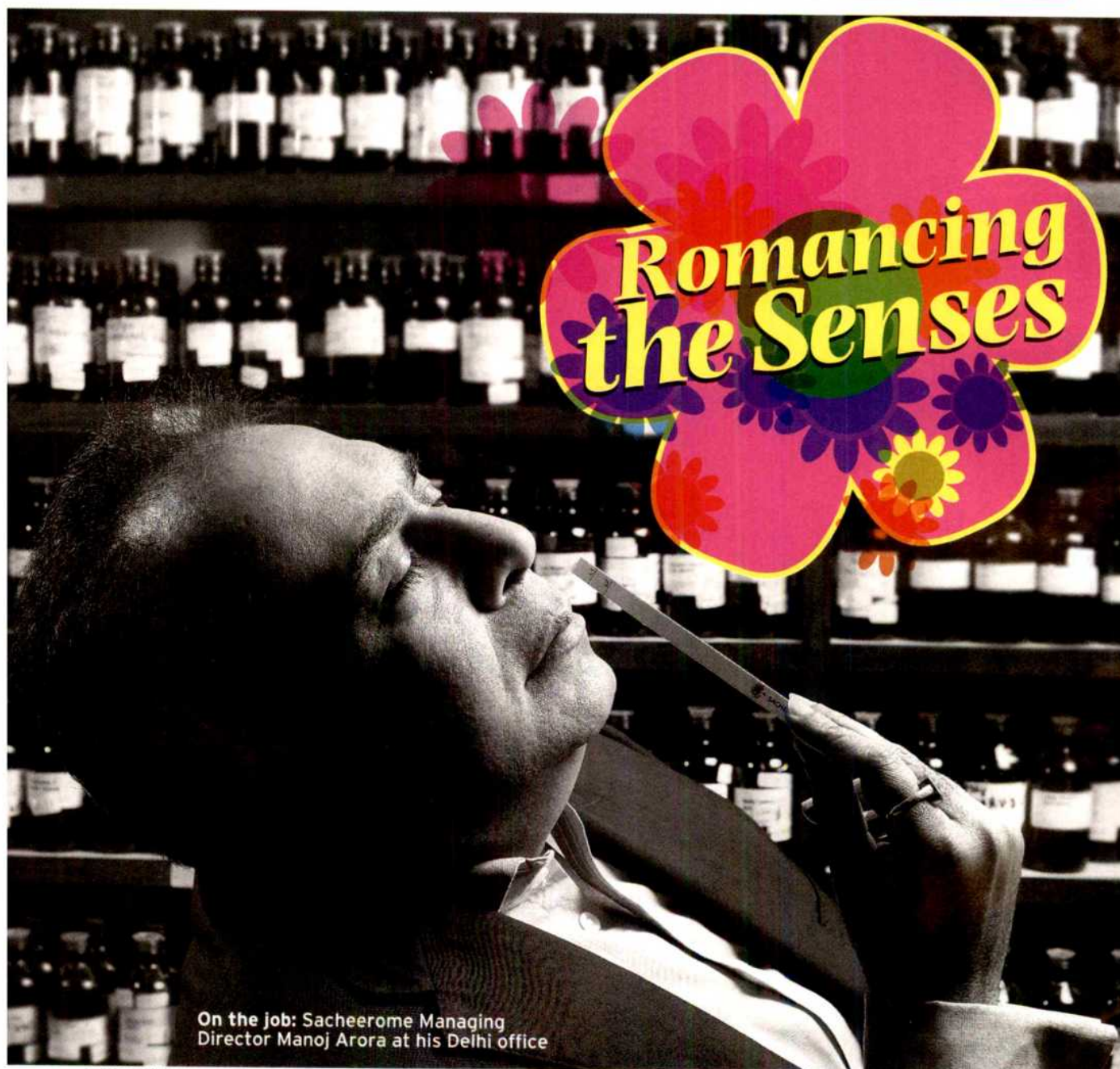
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On the job: Sacheerome Managing Director Manoj Arora at his Delhi office

VIVAN MEHRA



Video interview of Dhruv Arora and his father Manoj at www.businesstoday.in/sacheerome-arora

There has been an explosion of new fragrances and flavours triggered by growing consumer demand.

By ARUNIMA MISHRA



Vijay Vadrevou, guitarist with the Hyderabad-based rock band AlterEgoz, chooses his deodorants and perfumes as carefully as he plays his notes. "I have two distinct usage patterns," he says. "When I play the guitar during my shows I wear a Davidoff Cool Water, Park Avenue Jazz or [Christian Dior] Fahrenheit that have subtle fragrances and last for a long time. When I am at the gym or go out in the sun I use a Park Avenue or Wild Stone as these have a strong smell."

People like Vadrevou who want different fragrances for different occasions are not just helping to grow the market for deodorants and perfumes in India. They are also prompting companies to experiment with and launch products with newer fragrances, even though consumers have plenty of choices already with nearly 400 deodorants brands in a market estimated to be nearly ₹1,800 crore. "Our core customers buy the whole bouquet of fragrances for all occasions," says Ranju Mohan, Director and Business Head at J.K. Ansell, an equal joint venture between India's Raymond Group and Australia's Ansell International that sells deos and other products under the KamaSutra brand. "They don't just want to smell good. They are eager to smell better."

Anil Kulkarni, Business Director at another Raymond Group company J.K. Helene Curtis, which owns the Park Avenue brand, agrees with Mohan. "We constantly worry about new and refreshing fragrances that we create. Park Avenue launches two new fragrances every year and takes a fragrance off the shelf in case of poor acceptance from customers," he says. The company recently launched Park Avenue Speed Shower, a shampoo-cum-shower-gel formulated with exotic ingredients such as avocados and rosemary oil.

The newfound sense of experiment among consumers and companies is not limited to deodorants and perfumes. Similar innovations are happening in a wide range of other segments as consumer demand surges for new products that taste and smell different. "There is a market for newer fragrances in personal care, hair care, skin care and air fresheners, besides newer flavours in value-added foods business," says Dhruv Arora, Director for Business Development at Sacheerome, a Delhi-based company owned by his family that makes concentrate fragrances and flavours.

Consumer goods companies that are not shying away from trying new flavours and fragrances include Godrej, Gujarat Co-operative Milk Marketing Federation (GCMMF) and Vadilal Industries. GCMMF, for instance, is adding new flavours in product categories such as milk and ice-cream under its Amul brand. It will shortly launch flavoured milk variants – Kiwi, Passion Fruit and Musk Melon. Also, on the 15th of every month, Amul provides a new limited-edition flavour – called Sweet 15 – at its scooping parlours. The 100 ml-scoop is priced at ₹15, and at an extra cost of ₹5 or ₹10, a consumer can get his/her favourite topping like *kheer*, caramel and strawberry cream added to it.

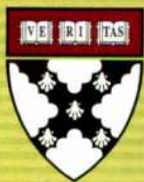
"Consumers are aspiring for new flavours and very few are willing to compromise," says R.S. Sodhi, Managing Director at GCMMF. He says the company has been adding exclusive franchisee ice-cream outlets that have more storage space and sell more flavours than a regular shop. "It is necessary to keep adding new flavours to get growth in a specific product category like ice-cream," he says. "It helps to increase excitement – a necessary factor for ice-cream consumption – for our product range and gets consumers

into our fold from the competitors' brands."

Ahmedabad-based Vadilal launches 15 to 20 products in ice-creams and flavoured milk every year, says Managing Director Devanshu Gandhi. "When there's [volume] growth of value-added flavoured dairy products, there's growth for flavour manufacturers," he says.

75%

of fragrances are made from synthetic ingredients, which are much cheaper than their natural counterparts



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Watch slideshow of Sacheerome factory at
www.businesstoday.in/sacheerome-factory

In the air freshener category, consumer preference is shifting away from traditional favourites like jasmine, lavender and sandalwood to fruity fragrances such as lemon and orange, and exotic ones like jojoba oil. Sunil Kataria, Chief Operating Officer, Sales, Marketing and SAARC, Godrej Consumer Products, says several products have been launched in the category in the past 18 months. He estimates the market size for air fresheners in India is about ₹400 crore and growing at 20 to 30 per cent annually. Kataria says the company launched a car product, Musk After Smoke, 10 months ago. "For summer it's a citrus note, while in winter it changes," he adds.

Another Godrej group company, Godrej Tyson Foods Ltd (GTFL), recently launched chicken toppings in three flavours – Barbecue, Classic and Hot & Spicy – under its fast-growing brand Real Good Yummiez. It also launched 'Chicken Strips' in two variants, Hot & Spicy and Lemon & Pepper, under the brand Real Good Chicken. Arabind Das, Chief Operating Officer at GTFL, says culinary tastes in India are changing as a growing young population is becoming increasingly aware of global cuisines. "Television food shows and proliferation of QSRs [quick service restaurants] have brought about a new eating culture. International culinary experiences are not limited to eating out," he says. "Consumers have now started experimenting with dishes such as pasta, pizza, and panini sandwiches at home, and add flavours and create recipes of their choice."

Consumer goods makers are not the only ones adapting to changing customer preferences. Companies that make concentrate fragrances and flavours such as Delhi's Sacheerome and Mumbai-based S.H. Kelkar as well as multinational companies like International Flavors & Fragrances, Symrise, Givaudan and Firmenich are growing their India businesses.

Sacheerome and S.H. Kelkar are among the main domestic players that make concentrate fragrances and flavours for consumer goods companies. S.H. Kelkar has a 20 per cent share of the fragrance market, according to CEO B. Ramkrishnan. The company has been growing 12 to 16 per cent annually for five years and posted revenue of ₹740 crore in 2012/13. Fragrances account for 70 per



"Consumers have started experimenting with dishes at home. They add flavours and create recipes of their choice"

ARABIND DAS
 COO, Godrej Tyson Foods

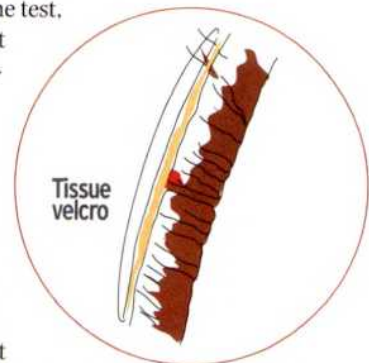
cent of its business and flavours make up the remaining. Ramkrishnan says easy availability of imported goods has helped increase consumer demand for innovative fragrances and flavours. "There's a growing market for us as we are not only selling to home-spun consumer goods companies but to the external world as well," he adds.

In order to keep up with the growing demand, Sacheerome and S.H. Kelkar have started making more investments. S.H. Kelkar has invested \$6 million (about ₹36 crore) in a plant, while Sacheerome, which already has a 15,000 sq. ft. research and development facility and manufacturing unit, has invested ₹70 crore in a new 40,000-sq ft R&D facility at Okhla in Delhi. Manoj Arora, Dhruv's father and Managing Director at Sacheerome, says the company is gearing up to increase its international presence. Sacheerome exports to 21 countries with *hookah* manufacturers in the Middle East one of its biggest buyers. The company plans to enter into six more countries this year. Arora aims to double Sacheerome's revenue from the current ₹100 crore in the next two years. "We are trying to become technologically advanced to compete in this space. We are growing at 11 per cent year-on-year, and want to be the market leader once our production increases," he says. ♦

@Mishra_Arunima

Gecko Biomedical An Adhesive that Performs in the Heart's Lub-dub

If you want to put a glue to the extreme test, the pumping heart would be the most challenging spot. A Paris-based start-up, Gecko Biomedical, working with technology developed at the Massachusetts Institute of Technology (MIT), has shown in animal testing that its adhesive can be elastic enough to hold heart tissue, despite the heart pumping at 180 beats per minute. The glue uses molecules which already exist in the body and is activated by ultraviolet light. Trials are on in Europe. The company wants to go commercial in 2016, targeting the tissue repair market and later the minimally invasive surgery market where it has many advantages over stitches and sutures.

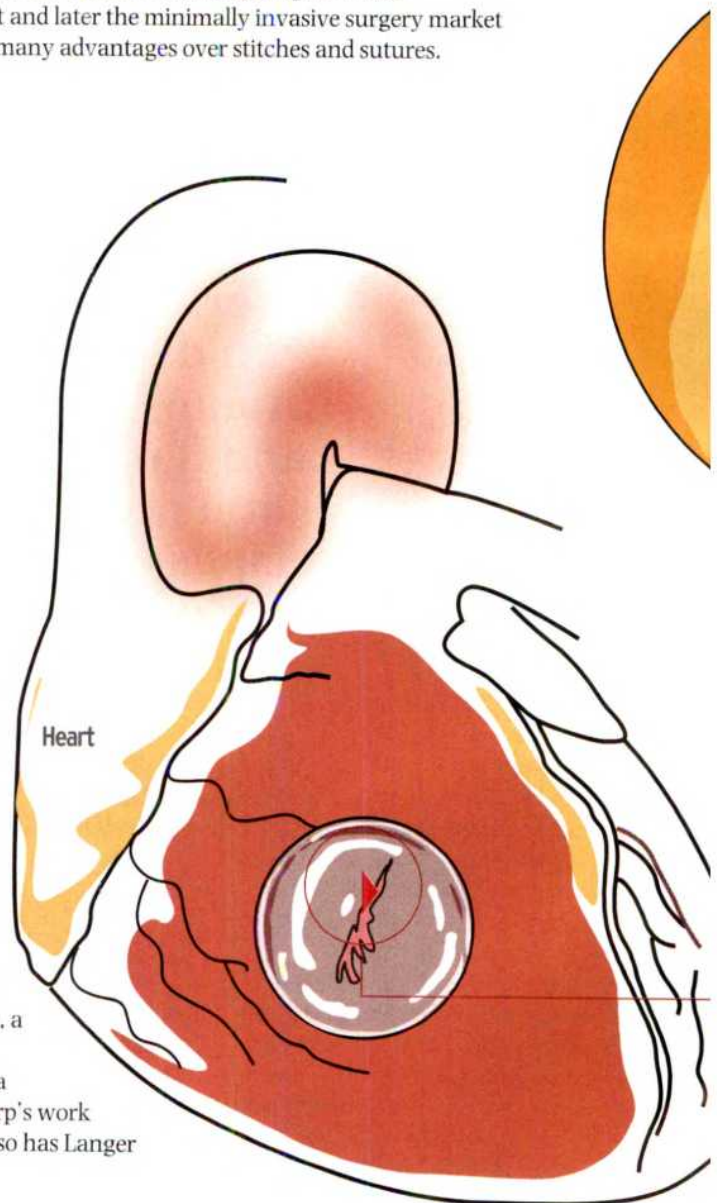


1 BACKSTORY

In 2005, Jeffrey Karp, a post-doc researcher at MIT, took a bio-inspired approach to create sticky material which could seal soft tissue and work under wet conditions. In 2009, Pedro del Nido, a doctor at the Boston Children's Hospital, came to him with a specific problem: how to seal the holes between chambers of the heart – a congenital problem some children have. Sutures could tear the fragile tissue while implants, designed for adults and non-biodegradable, often required invasive surgery. After four years of work, the duo found the solution.

2 BREAKING OUT

Karp was at the right place. He had worked at the Langer Lab, probably the most prolific biomaterials lab in the world, named after Robert Langer. Bernard Gilly, a serial entrepreneur who sold his biotech company for €370 million to Sanofi in 2009, was looking to set up a medical ecosystem in Paris. He came to Boston and Karp's work caught his eye. The company started a year ago and also has Langer as a co-founder.

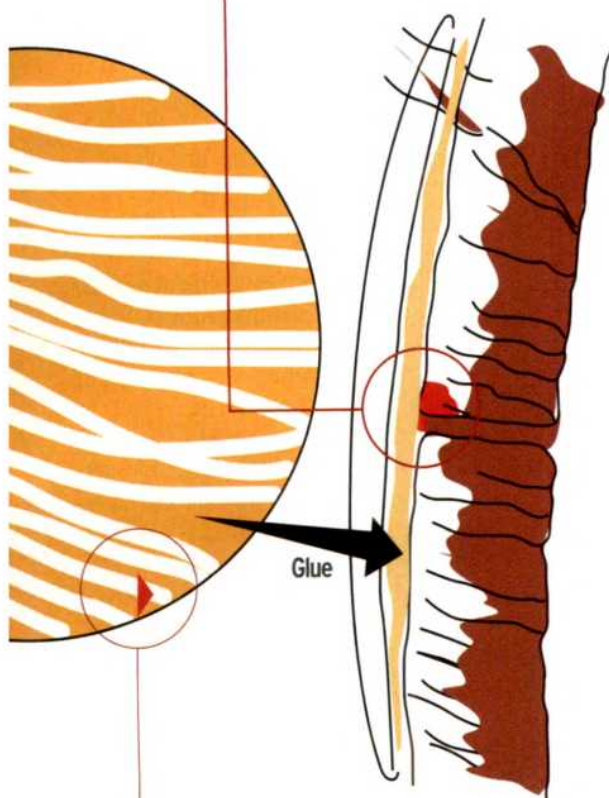




Video interview with Jeffrey Karp at www.business today.in/gecko-karp

LIGHT ACTIVATED:

The adhesive, which is based on two biomolecules, glycerine and an acid, is activated by UV light.



WET ADHESIVE: Many adhesives lose their potency in a wet environment. This one does not. The tissue surface need not be dry. The adhesive works in the presence of blood without reacting chemically.

BIOCOMPATIBLE PATCHES: They are like tissue velcro, growing into the tissue and holding it together. The idea is that the patches fill a wound and are biocompatible so don't need to be taken off.

"Turning to nature for inspiration can get you out of conventional thinking"

JEFFREY KARP

Co-founder, Gecko Biomedical

DIERMUT STREBE



3 PLATFORM PITCH

If it can work in the heart, it should work with any other organ too. Karp has also developed adhesive platforms inspired by porcupine quills, sandcastle worms and spiders.

4 HOW IT WORKS

The current design includes adhesives in the form of a gel that can seal tissue as well as patches. The base material is glycerine and sebatic acid. A key property is that the adhesive does not react chemically with blood. Instead, when a UV light shines on it, a molecule called a photoinitiator triggers the linking action of the polymer chains which cause adhesion. The glue hardens when you want it to.

The patches are like Band-Aid. Karp describes them as tissue velcro. If there is a hole to be filled, the patch can work as a scaffold for cell infiltration. The patch is also biodegradable and doesn't need to be taken off.

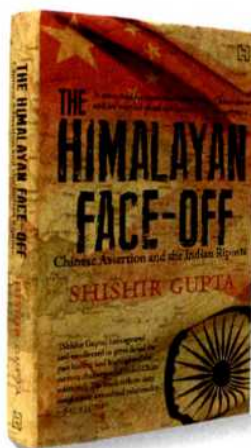
5 INDIA CONNECT

An estimated two million heart surgeries are needed every year in India. This technology may eventually reduce the cost of heart surgery and related surgical procedures. While the company's priority is Europe, Christophe Bancel, CEO at Gecko Biomedical, says India will be an important market to consider when the time comes. ♦

VIRAT MARKANDEYA

Sleeping with the Frenemy

A meticulously detailed account of the uneasy Sino-Indian relationship



The Himalayan Face-off

By Shishir Gupta

Hachette India

Pages: 330; Price: ₹650

Despite sharing a 3,488 km border, India and China have had relatively little to do with each other throughout their long histories. India did engage with Tibet, now grudgingly recognised as part of China, but with the Middle Kingdom as such, it had only the most tenuous of ties. It is only now, as two of the biggest economies in a globalised world, and both nuclear powers to boot, that they are forced to interact closely at several levels. But the interaction is vitiated by the persisting border dispute between the two countries and in India in particular, by memories of the 1962 border war, in which it was roundly trounced.

Shishir Gupta's book is the latest to examine this uneasy relationship, albeit entirely from the Indian viewpoint. What it does underscore is how deeply suspicious India remains of the Chinese government's attitude and intentions primarily because the latter's pronouncements and actions frequently do not match. China has repeatedly stressed that India is a partner, not a rival and that their common interests far outweigh their differences. And no doubt trade between the two, though skewed heavily in China's favour, has been steadily increasing – in 2011/12, it stood at \$75.4 billion against \$59 billion the previous fiscal year. Again, though the border issue is nowhere near resolution, there is the Peace and Tranquility Agreement of 1993, and two more signed in 1996 and 2005, that commits both nations to a peaceful border.

But every now and then an incident occurs, which to India appears like deliberate provocation. China, for instance, claims to be neutral on the Kashmir dispute and yet keeps referring to the border with India as "2,000 km long", which is to say it ignores the border it shares with Jammu and

Kashmir, tacitly refraining from recognising that state as part of India. It voices protests against any significant Indian initiative undertaken in Arunachal Pradesh, one of the two focal points – the other being Aksai Chin – of the border dispute. And above all, there are the incursions by the Chinese army into the Indian side of the border, the last major one at Daulat Beg Oldi on the Ladakh border in April 2013, which made global headlines and was only resolved after a 21-day standoff.

Gupta documents the ups and downs of the relationship in detail, quoting liberally from policy papers and government reports, as well as his discussions with those involved in shaping India's China policy. Former foreign secretary Shyam Saran in particular, who has travelled extensively in the border areas, is quoted at length. Overall, he believes, India has been far too accommodating in its approach. "Even though China has been acting as a bully in Asia for the past decade to force the world to recognise Beijing's arrival on the global stage, New Delhi's stance is of a weak power which wants to play in the premier league but is afraid of it," he writes. The Daulat Beg Oldi face-off, he maintains, signalled a change as India for once retaliated by building a tin shed, bang on the Line of Actual Control, in response to the six tents the Chinese had put up on the Indian side and finally got the Chinese to vacate.

But, in fact, as his own book documents, in recent years India has been doing a good deal – not only beefing up infrastructure in the border areas but also actively countering the growing Chinese influence on its smaller neighbours – Nepal, Bhutan, and Bangladesh – with initiatives of its own. ♦

DEBASHISH MUKERJI

Though the border issue is nowhere near resolution, there is the Peace and Tranquility Agreement of 1993, and two more signed in 1996 and 2005 that commits both to a peaceful border



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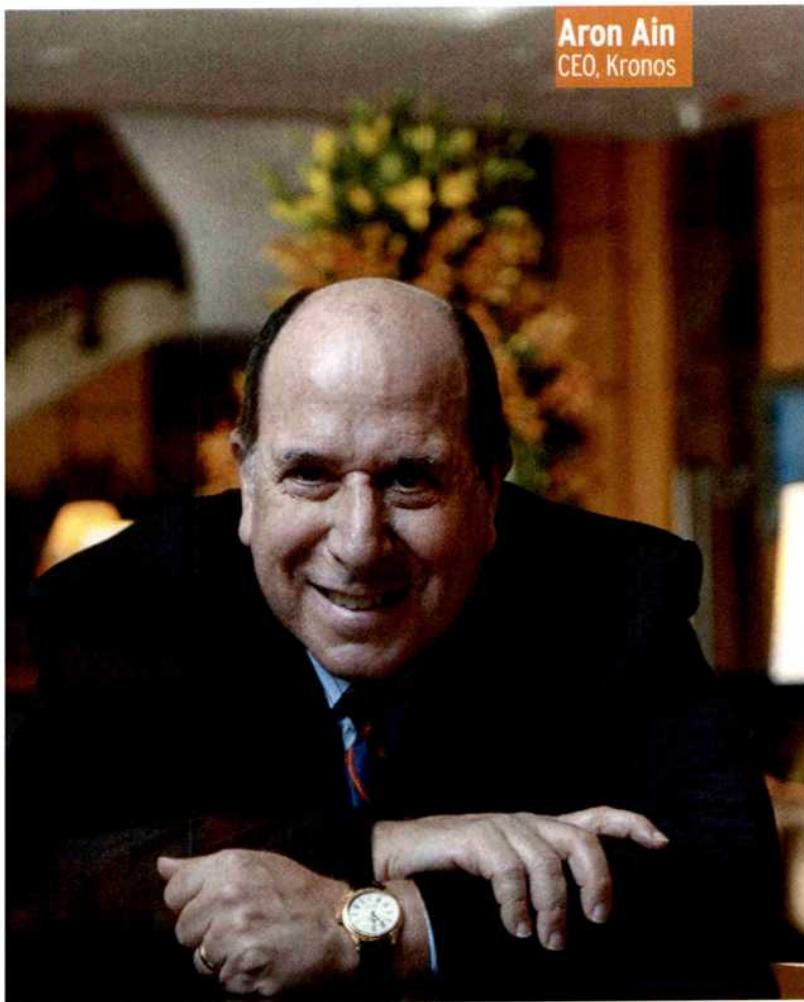
Paper Pusher

'Save Paper' may be the politically correct motto of the digital age, but **SANJAY K. SINGH** begs to differ. As Divisional Chief Executive of ITC Paperboards and Specialty Papers Division, his mission is to encourage paper use. "I take a printout of every important mail I receive," he says. Nor does he, unlike top executives in many offices, impose restrictions on the number of printouts of documents employees can take. Singh, who joined ITC as a management trainee in 1977, will also take over as President of the Indian Paper Manufacturers Association later this year.

AJAY MODI

Sanjay K. Singh
Divisional Chief Executive,
ITC Paperboards and Specialty Papers

PHOTOGRAPHS BY VIVAN MEHRA



Aron Ain
CEO, Kronos

Time of His Life

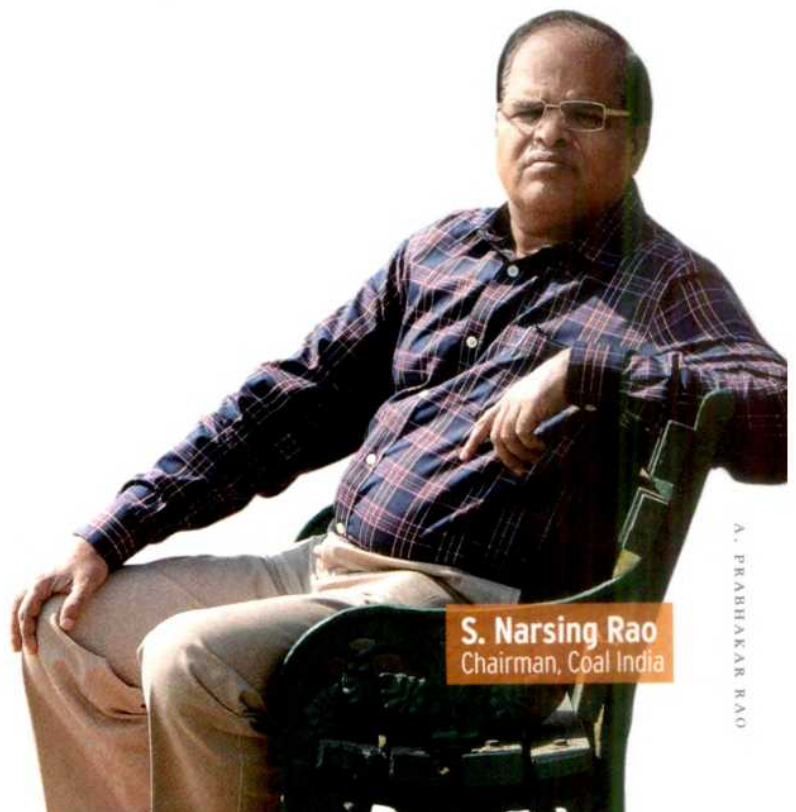
There was a time when companies manually clocked their employees' hours in office. Then Kronos developed the first punch card system linked to a microprocessor which it introduced in 1979. "Today we guide some of the top organisations in scheduling the right people at the right point. And, in India, we have our second largest centre outside the US," says **ARON AIN**, CEO of the leading workforce management software and services MNC. About Kronos's own system of scheduling people, he said: "We have a follow-the-sun principle where employees in Asia service Asian and other markets only during their day hours and the reverse cycle is maintained by other counterparts. We never treated India as a cheap, labour arbitrage base." Ain also stresses that companies need to be sensitive about employees having a life outside work and getting back to their families by the end of the day. His \$1 billion company is aggressively charting a growth path and, in India, is looking to double its operations in two years.

SHAMNI PANDE

Following His Heart

"I think the newly formed Telangana state faces more challenges and I thought my services would be much more useful there. Though, I must say, Coal India has been equally challenging and interesting," says **S. NARSING RAO**, 56, on his decision to step down as Chairman of the world's largest coal producing company to serve as principal secretary to Telangana Chief Minister K. Chandrasekhar Rao. Narsing Rao hails from Medak in Telangana and those who know him well say he has been a supporter of Telangana's statehood since his student days. Ask him about it and he laughs and says: "That is not relevant now."

E. KUMAR SHARMA

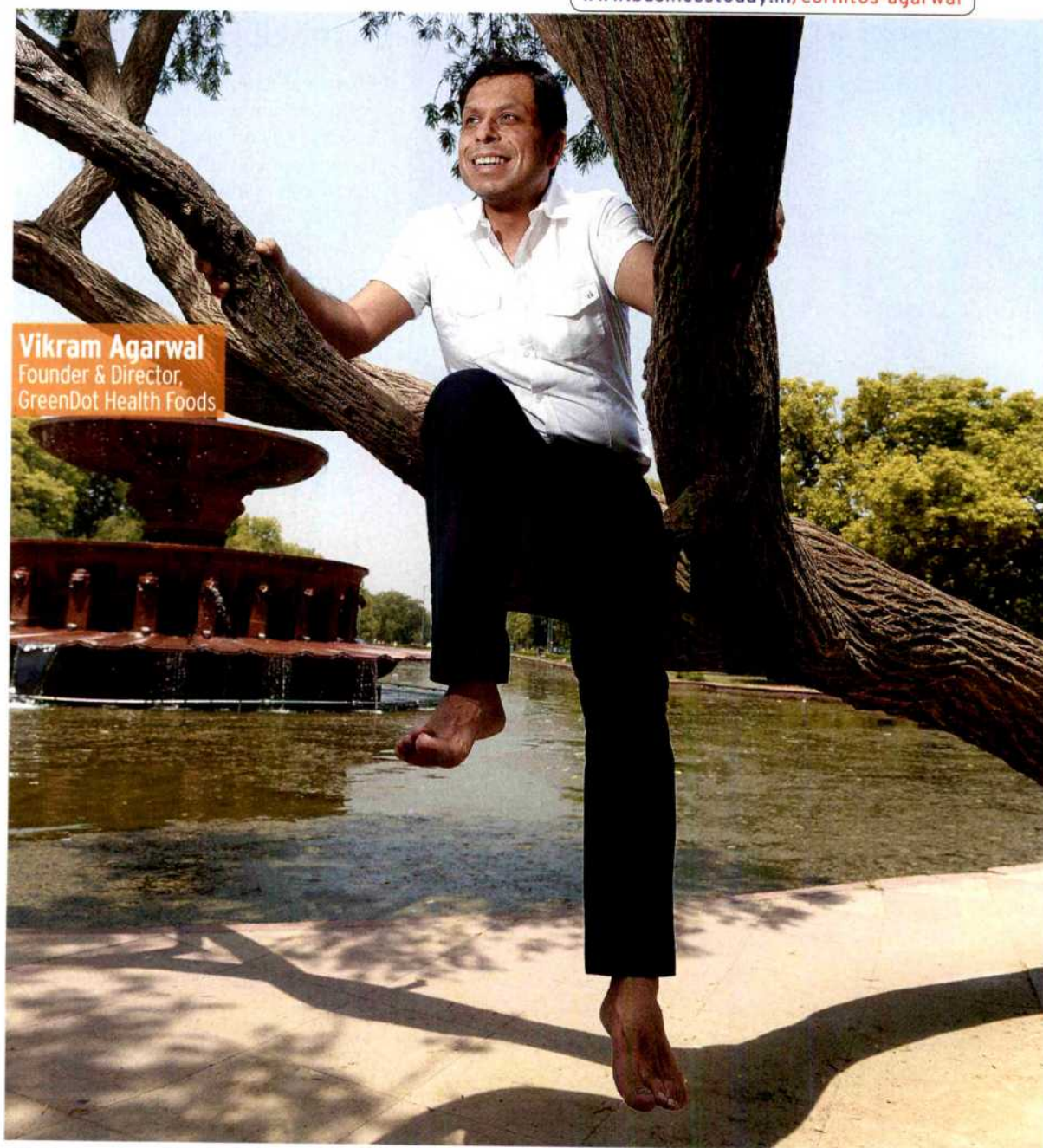


S. Narsing Rao
Chairman, Coal India

A. PRABHAKAR RAO



What is Cornitos all about? Go to www.businesstoday.in/cornitos-agarwal



Vikram Agarwal
Founder & Director,
GreenDot Health Foods

Making Nachos in India

Cornitos, a flavoured tortilla corn chips brand, was established in 2009 under GreenDot Health Foods Ltd banner. **VIKRAM AGARWAL**, Founder and Director at GreenDot, is optimistic about Cornitos's expansion in India, saying: "We want to reach a turnover of ₹100 crore in the next three years from the current ₹25 crore." Cornitos's production site at Roorkee in Haridwar district, Uttarakhand, is fully automated. Agarwal says the highest hygiene standards are followed at this plant, spread over an area of 6,000 sq. metres, with an annual production capacity of 1,800 tonne. "The nachos we make are untouched by hand, right from their lime treatment to their packaging," he says. "The quality of our products is guaranteed by a lab on site." Agarwal has always loved food. He recalls that when he was young, his mother would often call him to the kitchen to seek his feedback on dishes she had cooked – which he gladly provided.

ARUNIMA MISHRA



Schneider Electric's India plans at
www.businesstoday.in/schneider-sullivan

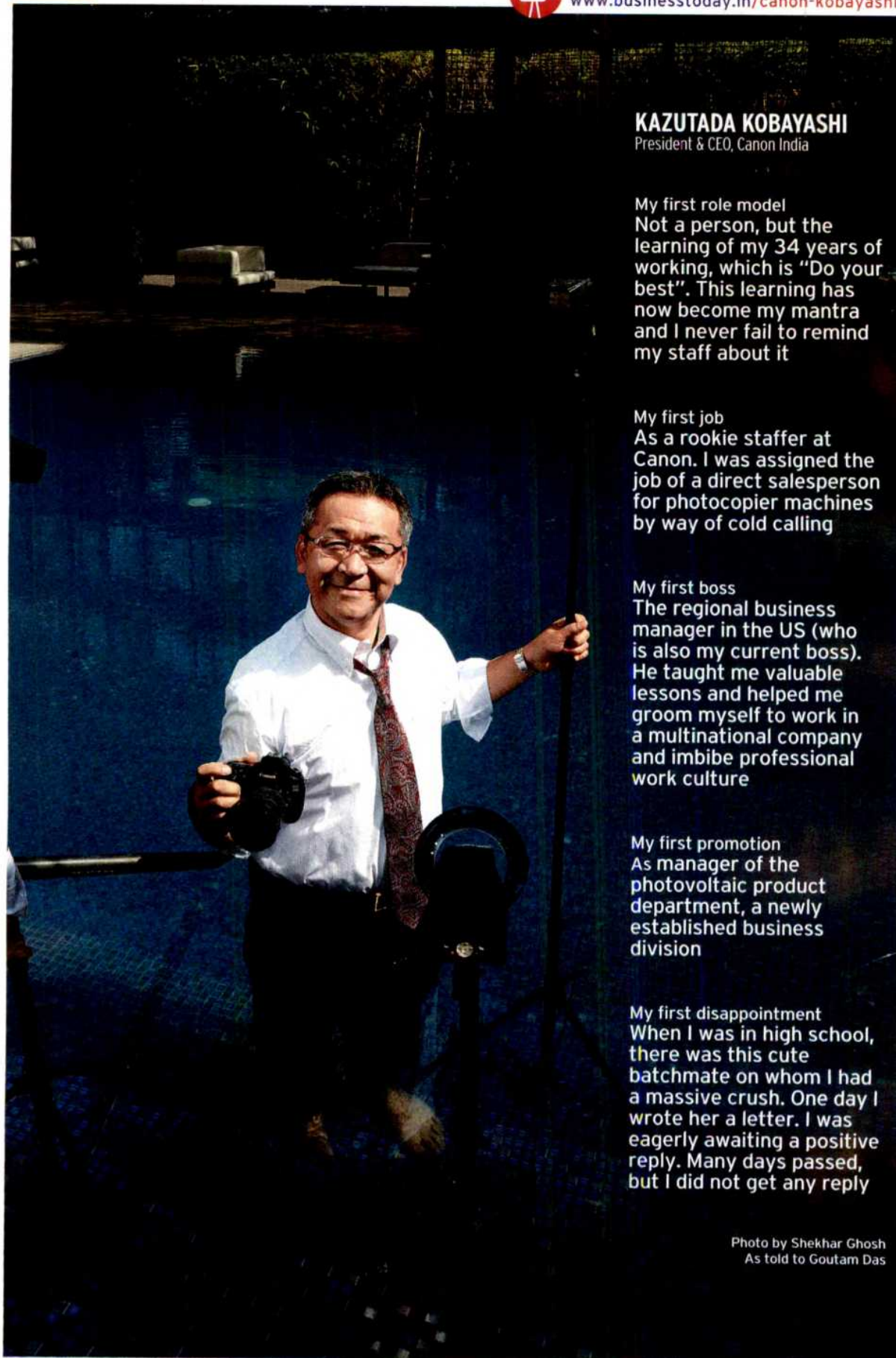
Healthy Approach

Among the companies looking for a slice of India's rapidly growing health-care sector is France's Schneider Electric. India is among the top 10 countries Schneider is targeting, says **MICHAEL SULLIVAN**, Vice President, Healthcare Solutions. "We increased our focus on providing health-care solutions to Indian hospitals four years ago," says Sullivan, 50. "We have decided to invest in a team of dedicated health-care specialists who understand the particular needs of hospitals." So, what does Schneider do for the hospitals it works with? "In building a new hospital, a lot of investment goes into infrastructure. We are not doing brick and mortar part of it. We build intelligent systems that help improve patient safety and satisfaction, staff productivity and financial performance through energy efficiency and assets efficiency," he says.

MANU KAUSHIK

Michael Sullivan
VP, Healthcare Solutions,
Schneider Electric





KAZUTADA KOBAYASHI

President & CEO, Canon India

My first role model
 Not a person, but the learning of my 34 years of working, which is "Do your best". This learning has now become my mantra and I never fail to remind my staff about it

My first job
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My first boss
 The regional business manager in the US (who is also my current boss). He taught me valuable lessons and helped me groom myself to work in a multinational company and imbibe professional work culture

My first promotion
 As manager of the photovoltaic product department, a newly established business division

My first disappointment
 When I was in high school, there was this cute batchmate on whom I had a massive crush. One day I wrote her a letter. I was eagerly awaiting a positive reply. Many days passed, but I did not get any reply

Photo by Shekhar Ghosh
 As told to Goutam Das

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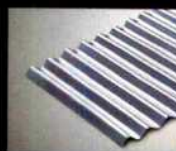
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STOCK MARKETS
BULLS SETTLE IN p16

MANUFACTURING
SMART FACTORIES p50

FMCG ADVERTISING
DIGITAL RELIGION p56

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What's in It for Me?

Ten years is a long time no matter how you look at it. It is not only about one-seventh of how long the average Indian lives, it is also enough time to change the course of a generation. That is why Manmohan Singh's two-term run as Prime Minister is looked down upon scathingly by today's commentators for the floundering state he left the economy in when he demitted office. He could have continued sustainably the "ache din" (good days) of his early years as Prime Minister into his second term, but failed to do so on basic leadership principles. Some, including Singh, believe history will judge him less harshly. I don't think so. In 20 to 30 years into the future, to be sure, most Indians would have lost memory of his years but there will be at least one small part of a generation that will miss the wind beneath its wings for its entire lifetime. Narendra Modi knows this and tapped wonderfully into this angst of young voters and their parents, and got to the Prime Minister's Office. If he now has to deliver, it is clear he will have to work in today's context of growth primed by investments, waning consumer spending, and get savings back on track. That's easier said than done. So, rather than getting cornered following what right-wing ideologues would call swadeshi principles, Modi is moving to the

centre. To be sure, it is not as if this was not expected. But what Modi is slowly fashioning – and he has the support of some in Rashtriya Swayamsevak Sangh – is what I'd call neo-swadeshinomics. The tenet of self-reliance is getting nuanced into "what's good for India", the phobia over many things foreign is being replaced "let me engage with them if I can get value in return", and decisions around splitting up a monopoly or rescinding a law are being measured by long-term impact.

Some of these decisions are also being counterweighed by how many people will be hurt on ground and, gratingly, what kind of people. Take the instance of organised retail. A big chunk of the support base of Modi's Bharatiya Janata Party is made up of traders. These range from petty merchants to distributors to transport fleet owners to financiers of the trade, and many others in the ecosystem. They are opposed to organised retail for the lower prices and better value Big Box retailers can offer and, in turn, the threat of weaning away custom from smaller outfits. The efficiencies of organised retail are good for consumers and the economy, especially if calibrated by mandatory sourcing from small vendors and contributions to setting up a robust supply chain where wastage is reduced. Opponents to this talk about the impact it would have on the livelihood of 40 million people. The BJP, which opposes foreign direct investment in multi-brand retail, gravitates towards this view. The new government has sought suggestions to amend the Factories Act from multiple stakeholders but is steering clear of a debate on the merits of organised retail. Still, what Associate Editor Shweta Punj calls the New Swadeshi on page 40 is not going to derail India's reforms journey and there should be more in the government's budget next month that spells it out for us.

In other stories this issue, Senior Associate Editor Mahesh Nayak writes about why the steam may not have run out of the equity markets yet; stay invested in quality businesses, he advises, to ride the wave this year (page 16). Associate Editor Ajita Shashidhar details how digital advertising is taking the FMCG industry by storm on page 56. Even as corporate India chieftains harp about getting factories humming in India, Senior Associate Editor Goutam Das shines the light on the trend of production lines, loaded with automation and flexibility, sprouting up (page 50). Finally, here's a serious question: will Indian pharma survive? Turn to Associate Editor E. Kumar Sharma's answer on page 70.



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Vol. 23, No. 13, for the fortnight June 23, 2014 to

July 6, 2014. Released on June 23, 2014.

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S M E L O A N S



Modi's Challenges

Your cover story package, starting with *Rough and Tumble* (June 22), provides many worthwhile suggestions for the NDA government. For the sake of the nation, the government must take harsh decisions – and eschew appeasing anyone on the basis of caste, religion and community. First, price rise needs to be checked. An effort to control black money – perhaps through a fresh Voluntary

Disclosure of Income Scheme (VDIS) – should be made. The new government should update many rules and regulations to create jobs, eliminate corruption and promote economic growth (as noted in your report, *Stifling Acts*). However, the Modi government should not pass important bills without debate in Parliament. The decades-old Acts, rules and regulations should be amended from time to time. In fact, there should be a time frame, say a maximum of 10 years, for an Act, after which it should be amended.

Mahesh Kumar, New Delhi

Tax Reforms

Business Today has well presented an agenda for tax reforms (*Lighten the Load*, June 22). The new government must initiate urgent tax reforms to encourage companies and revive investor confidence. Complicated and unrealistic procedures have to be scrapped for smoother compliance. The need of the hour is to follow the example of China and Japan and remove vexed taxation rules and other eco-

nomical hurdles. Appeals, counter appeals and the impractical system of TDS (tax deduction at source) have to be checked. The BJP has an opportunity to initiate best taxation policies. This will help the party reap rich rewards in general elections in 2019.

Akhilesh Kumar Sah, Faizabad

Exuding Fragrance

Perfumes and flavours (*Romancing the Senses*, June 22), and that too in a business magazine? From Davidoff Cool Water to Christian Dior to Fahrenheit, the fragrances sector has seen growing consumer demand. You have rightly pointed out that since very few consumers are willing to give up their favourite flavours, many companies have added franchise ice cream outlets with more storage space so as to stock and sell more flavours than the regular ice cream shops. Though an unusual feature, its fragrance, I hope, will attract many readers. Keep it up!

Namita Mahapatra, New Delhi

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Exports rise 12.4% in May, a steep rise in six months. Whatever may be the reason, this will definitely help in strengthening the rupee.

– Kunal Likhari

PM Modi disbands Cabinet committee on UIDAI.

Beware India! It may end up in dictatorship.

– Finney Giftson

Growth cannot be compromised at any cost: Arun Jaitley

During the current year, don't give or increase exemption to industry. Extract maximum revenue and utilise it for industrial development.

– Virendra Mayekar

RBI simplifies KYC norms for opening of bank accounts.

Nice, now banks can know more about their customers and less about fraud cases.

– Preeti Singh



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CONTENTS

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JULY 6/2014
VOLUME 23/NUMBER 13

COVER STORY

THE NEW FACE OF

SWADESHI

The BJP's earlier stint in power had it clashing with the RSS on economic policy. The RSS harped on self-reliance; the BJP-led government opened up new sectors to FDI. Narendra Modi's government is now setting the stage for neo-swadeshinomics

40

UPFRONT

12 | Quick takes on major events



FOCUS

16 | Beefed Up for Rally

The bull run, fuelled by hope, may be over, but the stock market can move higher. So stay invested in quality businesses

20 | It's Time to Sync

The Reserve Bank of India and the government will have to work in tandem to tame inflation

22 | Regaining Lost Ground

India's exports jumped in May, but it may be a little too early to celebrate

24 | Graphiti:
LIC: Generosity Pays





Interview with Alan R. Mulally

"I see myself as creator of exciting, growing businesses"

74

FEATURE

30 | Shining Again

Jewellery retailers push ahead with ambitious expansion plans, spurred by an easing of the curbs on gold imports



34 | 2 States

Before drawing up an economic roadmap, Telangana and Andhra Pradesh have to tackle vexed issues like tax and power

50 | Rise of the Machines

Both MNCs and Indian companies have started investing in 'smart' factories that combine automation, new processes, industrial Internet and Big Data



56 | Catching Up Online

Until recently, FMCG companies were considered slow in adopting digital media for advertising, but not any longer

60 | Learning a Lesson

One of the poster boys of digital education, Educomp struggles to stay relevant after initial success

64 | The Cash Changer

The inside account of how CMS Info Systems's CEO turned around and grew the IT & outsourced business services provider



70 | Symptoms of Ferment

Will the Sun Pharma-Ranbaxy deal be followed by further consolidation in the Indian pharma industry? Leading companies, such as Cipla and Dr. Reddy's, are being watched

78 | All Pumped Up

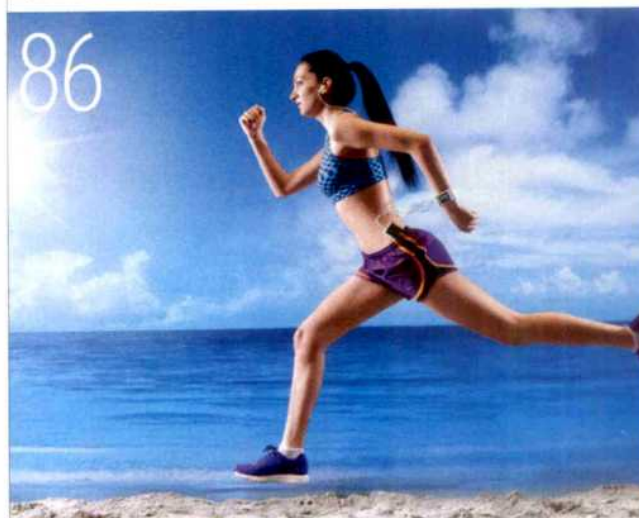
Shoe retail is becoming a battleground as new entrants try to muscle in on market share

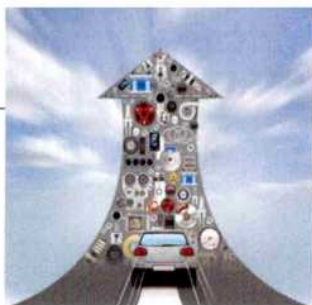
82 | Workspace Redefined

Online shopping is changing the contours of the corporate workspace even as employers wonder how to tackle the phenomenon

86 | The Swoosh of Creativity

Constant innovation has been the byword for Nike's success. This Case Study analyses the ever-evolving marketing strategies adopted by Nike to become a global brand





92

MONEY

92 | Fast Forward

Auto ancillary companies have been doing well of late. How will their stocks do in the near future?

LBNL



96 | India's Global Farming

With an increasing number of Indians exploring international cuisines, the business of exotic vegetables is also growing

96

100 | Dunking Server Blades in Liquid to Keep Them Cool

BOOKEND

99 | Big Changes in the Offing

A comprehensive guide to Big Data

106 | PEOPLEBUSINESS

LEADERSPEAK

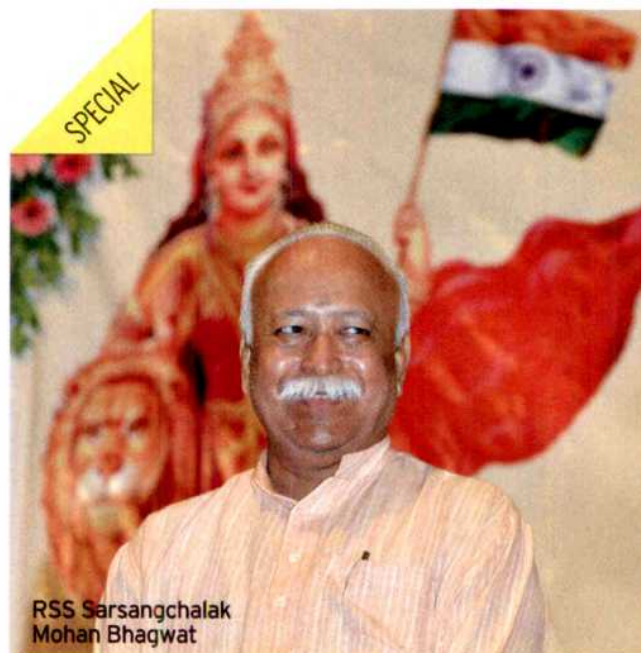
110 | Vinita Singhania

Vice Chairman & MD, JK Lakshmi Cement

110



SPECIAL



RSS Sarsangchalak
Mohan Bhagwat

Neo-swadeshinomics

How will the Narendra Modi government tackle the ideologues in the RSS who insist on a swadeshi thrust to the economy? The ideologues themselves may have changed since 2004 when the earlier NDA government was voted out.

businesstoday.in/swadeshi-new

NEWS

Delayed Monsoon Slows Kharif Sowing

Sowing of paddy and oilseeds is slower this time compared to last year due to the late monsoon.

businesstoday.in/monsoon-sowing

New Telangana government Reaches Out to IT, Pharma Companies

TCS chief N. Chandrasekaran and numerous other industry honchos were invited and feted at the swearing in of Telangana Chief Minister K. Chandrasekhar Rao.

businesstoday.in/telangana-itpharma



Apps for FIFA 2014

The most attractive of the host of apps that have been created for the 2014 football World Cup.

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Santhosh Babu provides political leaders tips on how to perform better.

businessstoday.in/buddhaintheboardroom



Tread Cautiously

How should investors respond to the surging equity market, with the Sensex crossing 25,000 points? Mahesh Nayak advises keeping a cool head.

businessstoday.in/markets-nayak



Fighting Fire with Fire

Power cuts during the searing Indian summer are a torment. But solar power could be used to combat power shortage, says TERI's Amit Kumar.

businessstoday.in/teri-amitkumar

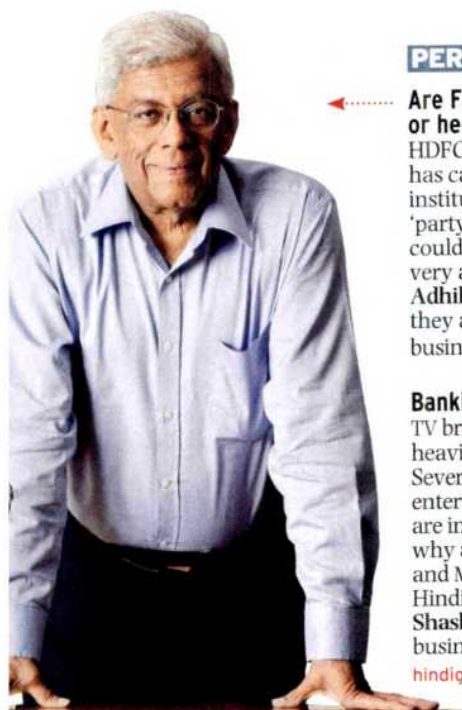


Protection and Investment Are Closely Intertwined

Sandeep Ghosh, CEO, Bharti Axa Life Insurance, discusses the need for insurance and just how much to insure.

businessstoday.in/bhartiaxa-ghosh

PERSPECTIVES



Are FIIs party hoppers or here to stay?

HDFC's Deepak Parekh has called foreign institutional investors 'party hoppers' who could leave the country very abruptly. Anand Adhikari discusses if they are really so

businessstoday.in/fiis-party

Banking on Hindi GECs

TV broadcasting is a heavily crowded market. Several Hindi general entertainment channels are in bad shape. Then why are Zee, Viacom and MSM launching new Hindi GECs, asks Ajita Shashidhar.

businessstoday.in/hindigecs-new

INTERVIEWS



"There is no big demand for skilling programmes"

Pramod Bhasin, former Genpact chief and founder of The Skill Academy, speaks to Shamni Pande about the problems skill development in India faces.

businessstoday.in/skill-bhasin

"Canada to make immigration easier"

Chris Alexander, Canada's Minister for Immigration and Citizenship, assures Anilesh Mahajan.

businessstoday.in/Canada-alexander



"Size of frauds by companies in India is smaller than in mature markets"

Rohit Mahajan, Senior Director and Head of Forensic services, Deloitte Touche Tohmatsu India, talks to Sarika Malhotra.

businessstoday.in/deloitte-mahajan

"A more mature investment phase likely"

Sanjeev Krishan, Leader - Private Equity, PwC India, discusses the PwC report PE in India 2025 with Sarika Malhotra.

businessstoday.in/pwc-krishan



"Most Indians still look to the system for help, rather than running with an idea"

Gautam Kaul, Professor of Finance at Ross Business School, University of Michigan, compares the entrepreneurial climate in India and the US in a conversation with Sarika Malhotra.

businessstoday.in/Michigan-kaul

CEO TO CSR

As the Chief Minister of undivided Andhra Pradesh from 1995 to 2004, **Nara Chandrababu Naidu** was called the state's CEO for his investment-driven policies. Now, as the Chief Minister of the residuary Andhra Pradesh, he is behaving like its CSR head. One of his first acts is to initiate a waiver of loans worth ₹54,000 crore taken by farmers. Other decisions include an increase in pension to the old and the handicapped, mineral water in villages at ₹2 a litre, and an increase in retirement age for state employees. These sound like just the kind of dole-based policies the UPA used to swear by, the kind that Prime Minister Narendra Modi panned in his campaign based on governance, opportunity, and efficiency. As they say, the nation would wait for his response to Naidu, a powerful ally.



RAJ VERMA

OWN GOAL

In our June 8 edition, **Arpita Mukherjee** told you about Uber, the app-based private cab service. Set up five years ago in San Francisco, Uber has now raised \$1.2 billion at a valuation of \$17 billion. That makes it worth more than traditional car rental



giants Hertz and Avis, and almost as much as Twitter and LinkedIn. But perhaps the bigger blast of publicity for Uber is coming from the strike by cab drivers in Europe. Uber says there has been an 850 per cent rise in sign-ups since London came to a halt. News outlets are quoting experts who call it an "own goal" by taxi drivers and "PR gold" for Uber.

CUP NOT QUITE FULL

Talking about goals, Goldman Sachs has done its usual number crunching to predict an Argentina versus Brazil final at the soccer **World Cup** in Brazil. If that dream comes true, the tournament, which began on June 12, will likely score its projected TV viewership of more than a billion. However, it's not really a fairy tale panning out; a large section of Brazil's soccer-mad population is surprisingly cool to the tournament, and hot under the collar over corruption and the splurge over the event when the country suffers from extremes of poverty. The build-up to the tournament was noticeable more by strikes and protests than celebration.



WATCH YOUR MOUTH

If you like to get intimate on the phone, try not to do something that's illegal or jeopardises national security. For that might mean your communication becoming a three-way affair, the third party being a government official. Telecom operator **Vodafone** said in its first Law Enforcement Disclosure Report that governments of 29 countries, including India, regularly made requests for data about users. Some of them, Vodafone said without naming the countries, could tap directly into its network, even without legal warrants. It did not disclose details of India's tapping and access because it is against the law here for a telecom carrier to reveal information about interception of calls and messages.



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LIC/Paramin/13-14/15/ENG

News Digest

The new government is hoping for some heavenly intervention after the Met department forecast of deficient monsoon rainfall spread some panic. The chances of an El Nino effect, which had caused the worst drought in 37 years in 2009, are pegged at more than 70 per cent now against 60 per cent in the first prediction for this year.

So, wait and see if all this will lead to food inflation and shortage of, among other things, onions, the bugbear of any government. The government will not be able to blame the UPA regime for poor rainfall – witness just how the other day Finance Minister Arun Jaitley blamed the previous government for the economic mess.

And, we are not alone fighting the inflation battle. Neighbouring China's inflation accelerated in May to its fastest pace in four months. Consumer prices rose 2.5 per cent from a year ago. The economy is projected to grow this year at the slowest pace since 1990.

That has not stopped China from toppling Germany and Japan in the rank of countries by private financial health. China's \$22 trillion is expected to increase more than 80 per cent to \$40 trillion by 2018, according to the Boston Consulting Group.

Here is one more proof that digital age is upon us, and spreading fast. The net user base in India, the third-largest after China and the US, is expected to double to 526 million by 2018. Cisco expects networked devices in India to jump to 1.8 billion by 2018.

Online hiring in India rose by 19 per cent year-on-year in May, registering the highest growth since February last year, according to job portal Monster.com.

Toyota Motor Corp is recalling about 650,000 vehicles in Japan because of potentially defective airbags, expanding a costly recall it announced in 2013 because the supplier, Takata Corp, had not fully identified the problematic parts.

A bank account can now be opened with just one address proof, permanent or local. The latest RBI decision will help migrant workers and employees with transferable jobs.

Norwegian telecoms group Telenor has sought the Indian government's approval to invest ₹780 crore to raise its stake in its local unit, Uninor, to 100 per cent from 74 per cent.

Healthier breakfast options such as oats are getting increasingly popular in India, says a Nielsen India report. Oats occupy a 26 per cent share in the ₹720 crore breakfast cereals market. Oats as a category grew 38 per cent in the last one year.

Infosys, struggling with a leadership crisis and several exits at the top, has seen a change of guard again. Vishal Sikka, who led the "intellectual renewal" of enterprise software company SAP as its chief technology officer, was appointed the new Infosys CEO. Chairman N.R. Narayana Murthy will become Chairman Emeritus from October 11, after which board member K.V. Kamath will take his place. U.B. Pravin Rao, President and Director, has been promoted to chief operating officer.

Ringling in the low-cost voice regime, Reliance Communications has slashed its outgoing calls by 55 per cent. The 'One India One Rate Plans' does away with roaming charges, and customers will pay the same rate for local, STD and roaming calls from anywhere in the country. Sistema Shyam TeleServices, which provides telecom services under the MTS brand, followed suit offering full talk time on all recharges starting at ₹30 and 10 per cent extra talk time on recharges of ₹150 and above for one year.

Car sales grew by 3.08 per cent to 1,48,577 units in May. Positive sentiment over the formation of a stable government at the Centre and lower excise duty in the interim Budget helped dispel some gloom in the auto industry.

Google is buying Skybox Imaging in a \$500-million deal that could serve as a launching pad for the Internet company to send its own fleet of satellites to take aerial pictures and provide online access to remote areas of the world. Google typically benefits when more people are on the Internet to see the ads that generate most of the company's annual revenue of \$55 billion.

European Union, battling a financial crisis, is cracking down on tax evasion. The European Commission is probing whether generous tax arrangements granted to global corporations in three EU countries – Apple in Ireland, Fiat Finance and Trade in Luxembourg and Starbucks in the Netherlands – amounted to illegal state aid. Politicians are desperate to boost depleted national coffers and soothe voter anger over cuts to welfare programmes.

Chief financial officers in India led the Asian region in terms of investment and spending across business functions in the current financial year, according to an American Express study which surveyed CFOs at companies with turnover of \$500 million in 12 countries.

The World Bank has predicted the world economy would grow 2.8 per cent this year, below its prior forecast of 3.2 per cent made in January.



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The Jiva Grande Spa at Vivanta by Taj – Surajkund, NCR.

The Jiva Grande Spa at Vivanta by Taj – Surajkund, NCR, promises a retreat for seekers of urban rejuvenation. Where dedicated therapists combine India's age-old Ayurvedic concepts with our modern signature experiences, to set a new benchmark in holistic treatments and therapies. Across 18,500 sq. ft. with tranquil corridors that lead to 10 private treatment rooms. From a spacious luxury spa suite, beauty stations and relaxation areas to a fitness centre, a yoga studio and a large outdoor pool. Even the entrance is based on the ancient Indian Baoli (reservoir) in design and concept.

The Jiva Recovery retreats and the Jiva Sleep programs are designed for those who end up working in their sleep. While the unique 'Shringaar' experience is a special preparation for the new brides and grooms-to-be.

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FOCUS

20 Taming inflation
22 Exports rising
24 LIC prospers



Beefed Up for a Rally

The bull run, fuelled by hope, may be over but the stock market can move higher. So stay invested in quality businesses. By MAHESH NAYAK

Even after the BSE Sensex crossed the 25,000 mark, Nilesh Shah, director of Axis Direct, a subsidiary of Axis Bank, is busy buying stocks from the market. "We are in a bull market and I am a buyer even at the current levels," says Shah. He feels that the market is bullish on the hopes that the new government led by Narendra Modi will take steps to bring back growth into the economy. "The direction

is there. We will have to wait and watch on the magnitude of this change," he says.

IDFC Mutual Fund has a different take. It was cautious about the recent rally in the market.

In June first week, the officials of the mutual fund had told its distributors that their fund managers had no hand in generating the impressive return in the market rally following the May 16 election result. However they also said that how much it can save during the downfall would depend on the experience and skill of their fund managers. This indicates that the recent rally was faster than expected and there is a good chance for correction in the near future. The mutual fund had met distributors as it has re-opened IDFC Premier Equity, its flagship equity fund, for lump sum investment.

The BSE Sensex has gained 15 per cent in the last two months. The Sensex jumped to an all-time closing high of 25,580.21 on June 9 from a low of 22,197.51 on April 7, the day when the first phase of polling began. The rise has primarily come after May 8 based on the expectation that the Narendra Modi-led National Democratic Alliance (NDA) will get a clear majority. On May 8, the Sensex was trading at 22,344.04. Year-to-date, the Indian market has gained nearly 22 per cent and ranks among the top four markets in the MSCI Emerging Market Index. India lags behind UAE (44 per cent), Qatar (27 per cent) and Turkey (24 per cent).

"The mandate is clear from the people. It is the strongest mandate given to any government in India in the past 25-30

years. It's certainly an opportunity to build a new India," says Christopher Harvey, Managing Director & Global Leader (financial services) at Deloitte who has come to India after two years to meet colleagues, clients and regulators.

Despite being positive he was also cautious and knows well that India will take time to deliver. "Like a 7.5 per cent growth in China, the 4.5 per cent GDP growth is not enough for India. It has to grow much more. It's not going to be easy for the new government as it's not going to be a government with popular policy. India is a super tanker and it takes efforts to turn the tanker and it will take time," he says.

Market is not living in the present as fundamentally not much has changed. But market has already taken into consideration that growth is a certainty with Modi coming into power. Market always discounts the future and today it has a strong



WHEN MOMENTUM TAKES OVER

	May-14	May-13
Sensex one-year return	23.50%	23%
FII inflow in a year	\$12 billion	\$31 billion
Winners (out of 1,959 stocks)	1,481	710
Losers (out of 1,959 stocks)	478	1,249

Source: AICT Equity

conviction that India under Modi is expected to be pro-business, pro-growth and pro-reforms and the new government will revive demand and investment.

If we compare the market performance between June 2013 and May 2014, the Sensex has gained 23.5 per cent. More than 50 per cent of stocks (1,061 of 1,959) on the BSE have beaten the benchmark and 76 per cent of the stocks (1,481) gave returns of more than one per cent. Most of these gains were in April and May 2014.

Compared to this, between June 2012 and May 2013, the BSE Sensex had gained 23 per cent, while the stocks that beat the benchmark were 22 per cent (424 of the 1,959). Only 710 stocks (36 per cent) delivered more than one per cent. FII flows between June 2013 and May 2014 was \$12 billion compared to \$31 billion be-

tween June 2012 and May 2013. This shows that when momentum picks up fundamentals go for a toss. It doesn't matter if the stock is good or bad or ugly, everything moves and it would be better to ride along with the wave but never against it.

Though the rise has been sharp, experts don't see the market at euphoric levels. "Market is still at a 20 per cent discount to its previous peak. Today the market (Sensex) is trading 16 to 17 times forward compared to the 25 times forward in 2008," says Shah of Axis Capital who still sees valuations fairly valued at current levels. "Since the previous peak of 2008, Sensex has jumped 20 per cent, while earning has grown 100 per cent and therefore the rise isn't unwarranted," he says.

According to Mahesh Patil, co-CIO at Birla Sunlife Mutual Fund, in the last two to three years valuations were being looked from a one-year perspective. "If you take that view then markets look expensive. Now that the new government is stable, the market is valuing for a longer time like three to five years. So even though there is no change on the ground scenario, there are expectations. Also we are

hitting the bottom of the economic cycle, so barring any black swan from the international markets, we are witnessing a start of the investment cycle," he says.

Stocks are catching up with the fundamentals, but the rally of hope is clearly over as one can't invest in anything. Despite the favourable statistic showing that the probability of going wrong is lower than a year ago, going ahead won't be a one-way street. "The market will go up and down. Though everything has run up, it's not going to be the same going ahead. Don't buy cheap, buy quality business," says Shah.

India is also in a unique position as among its peers there is no other market that is so attractive. Among the BRIC nations, in-

vestors aren't willing to take a call on Russia due to the Ukraine tension, China due to growth and credit slowdown and Brazil due to micro-economic issues and internal strife. Similarly, investors are wary of Thailand, Egypt and Turkey due to political tension.

Another positive for the Indian market is local funds are likely to be back. "Expectations are that local money will flow. However, so far we haven't seen them coming into the market," says Patil who says the current rally is fuelled by global exchange-traded funds and hedge fund money.

Also, there has been a slowdown in redemption of unit-linked insurance plans after the industry regulator, in 2010, increased the lock-in period to five years from three

years previously. "Some global hedge funds have become active and they have shown interest in the Indian market," says Patil who feels that the global funds are still to come and that would further boost the Sensex.

Though India looks positive, it's also getting costlier among its peers. Russia, Brazil and China for instance are already trading at 60 to 65 per cent, 50 per cent and 40 per cent discount, respectively, to India, which is also costlier than the US. "Yes, the global risk-

off will be a negative for our market. But for now there are no fears of outflows.

However if the flows shift, it can be painful for India," says Patil. He sees decent opportunity in the market but is clearly not in favour of playing blind. "There was value in the market. The decisive government kicked the initial rally, which is now over. Henceforth one has to be careful in picking stocks and from here on earning growth will drive stocks."

After a sharp rally the bull is resting and waiting for the next trigger before it rages ahead. All eyes are on the budget which is expected to spring some surprises. ♦

@MaheshNayak

IN THE TOP LEAGUE

WITH A GAIN OF 22 PER CENT, INDIAN MARKETS NOW RANK AMONG THE TOP FOUR IN THE EMERGING MARKETS

MSCI Emerging Index	YTD
UNITED ARAB EMIRATES	44.24%
QATAR	27.01%
TURKEY	24.04%
INDIA	21.90%

YTD: Year-to-date

Source: MSCI.com

WHAT CAN GO WRONG

- ▶ **DROP IN FII INFLOW/RISE IN OUTFLOW**
- ▶ **SLUGGISH REFORM**
- ▶ **INCREASE IN US INTEREST RATES**
- ▶ **POOR MONSOON/UNCONTROLLED INFLATION**

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It's Time to Sync

The Reserve Bank of India and the government will have to work in tandem to tame inflation. By ANAND ADHIKARI



Two to Tango: Finance Minister Arun Jaitley (left) with RBI Governor Raghuram Rajan

THE NEW GOVERNMENT'S BIGGEST CHALLENGES WILL BE TO INITIATE POLICY REFORMS AND MOVE FORWARD ON FISCAL CONSOLIDATION

Not many people would have been surprised when Reserve Bank of India (RBI) Governor Raghuram Rajan kept interest rates on hold in his June 3 monetary policy review. Rajan has time and again indicated his reluctance to ease monetary policy so long as inflation remains high. His anti-inflationary stance hasn't changed much even after the pro-growth Bharatiya Janata Party (BJP) government took charge late last month under Prime Minister Narendra Modi. But the fight against inflation is not the RBI's alone, and the government now appears serious about taking steps to control prices.

In his address to a joint session of Parliament after the 16th Lok Sabha convened for the first time, President Pranab Mukherjee outlined the new government's resolve to fight inflation. Containing food inflation, the main reason for overall price rise, is the government's top priority, he said on June 9. The government will also focus on improv-

ing supply of farm products, and prevent hoarding as well as black marketing, he said.

Analysts have welcomed the BJP government's intent to remove supply-side constraints in a bid to control prices. They say the previous Congress party-led United Progressive Alliance (UPA) government failed to create infrastructure like cold storages or go after hoarders to contain inflation. "Improving food production, distribution and supply hasn't received the importance it should have," says Devika Mehndiratta, Senior Economist at ANZ India.

Several other supply-side measures are required to bring down food inflation. First and foremost is the need to do away with the archaic Agriculture Produce Marketing Committee Act by state governments or at least remove fruits and vegetables from the purview of this law. Critics say the law leaves enough scope for price manipulation. Onion prices, for example, touched ₹100 a kilogram

just before assembly elections in five states in December last year. The prices came down once the results were announced. Another issue is wastage in farm produce. A recent study by ratings firm CRISIL found that wastage and pilferage in agricultural output was ₹70,000 crore in 2010/11, almost a third of the total production value.

The bigger challenges for the new government, however, will be to initiate policy reforms and move forward on fiscal consolidation. The country's economic situation worsened in the past couple of years as growth slowed, the rupee slumped, and the twin deficits – the current account gap and the fiscal gap – widened. The UPA failed miserably in controlling the fiscal deficit. But it moved aggressively to contain the current account deficit, the broadest measure of trade, by imposing curbs on the import of gold. This has, in turn, helped the rupee gain from a record low near 69 to the US dollar in August last year to around 59 now. This has reduced any threat from imported inflation by way of a rise in the oil import bill.

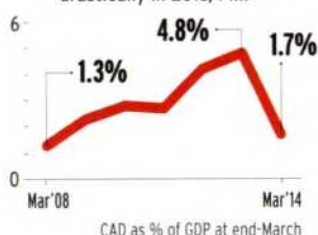
With the current account deficit in control, the most important issue for the government will be to fix its finances. RBI Governor Rajan will look for a clear road map for fiscal consolidation than just revenue and expenditure numbers in the Union Budget for 2014/15 to be presented in July. "Fiscal consolidation is necessarily the capstone of structural reforms," says Richard Iley, Chief Economist for Asia at BNP Paribas, in a recent report.

Fiscal consolidation is essential also because some empirical studies point out that every one percentage point increase in the fiscal deficit causes about a quarter-point in-

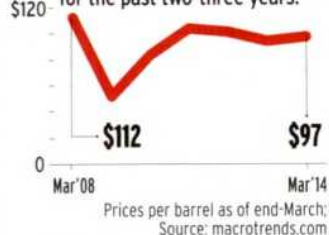
A MIXED BAG

The positives and the negatives of the Indian economy

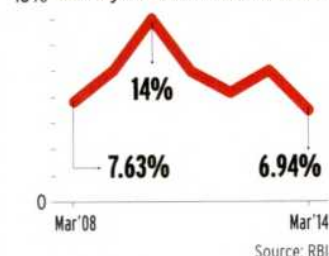
The current account deficit shrank drastically in 2013/14...



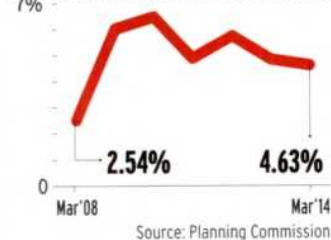
...And oil prices have been stable for the past two-three years.



But high inflation is worrisome...



...And so is the wide fiscal deficit.



crease in wholesale prices. The fiscal deficit in the year through March was 4.63 per cent of gross domestic product. The Fiscal Responsibility and Budget Management Act had earlier set a target for the fiscal deficit at three per cent by March 2008. But it was never achieved, due partly to the global financial meltdown of 2008 that prompted the government to dole out fiscal incentives to industry. The deadline has now been extended to March 2017.

Finance Minister Arun Jaitley has indicated that tough measures are required to contain the budget gap. Those measures could include reining in oil, food and fertiliser subsidies. Iley of BNP Paribas says any cut in fertiliser and fuel subsidies will "signal a conservative and politically brave budget" next month. The government may also control spending on welfare programmes such as the National Rural Employment Guarantee Scheme. "The [jobs] scheme, though important in concept because of a lack of any social security net for the poor, hasn't been implemented productively and might have added to inflationary pressures," says Mehndiratta of ANZ.

Clearly, the government has its task cut out before the RBI cuts interest rates. "The RBI's hands are tied," says V.N. Dhoot, Chairman of Videocon Group, who met

Finance Minister Jaitley in early June along with some other industrialists and feels the government is serious about controlling prices. "I'm sure the government will announce measures to tackle the soaring inflation," he adds. ♦

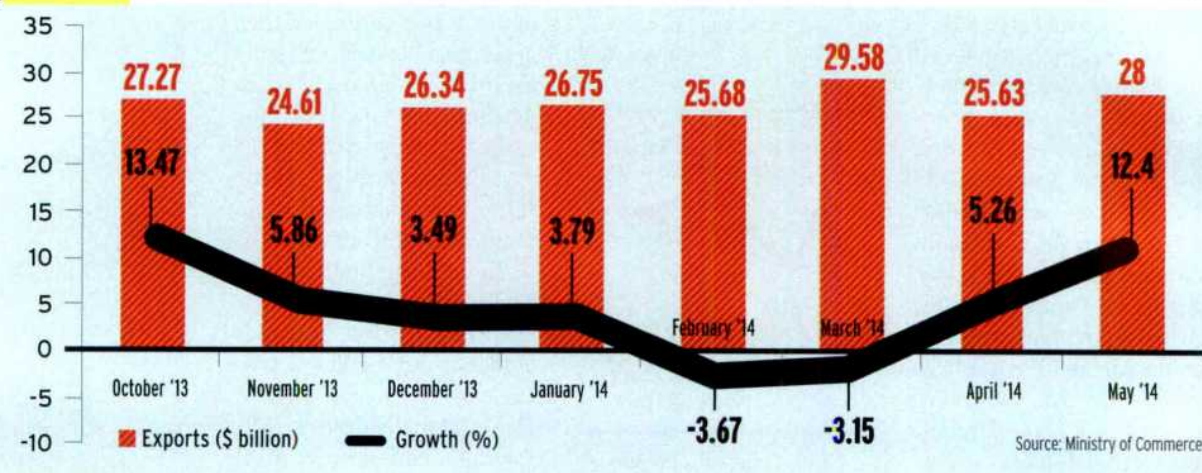
RESEARCH INPUTS FROM JYOTINDRA DUBEY

@anandadhikari



Regaining Lost Ground

India's exports jumped in May but it may be a little too early to celebrate. By AJAY MODI



THE BASE EFFECT WILL LIKELY HELP THE COUNTRY POST HANDSOME EXPORT GROWTH IN JUNE AS WELL, AS SHIPMENTS IN JUNE 2013 HAD DECLINED 4.56 PER CENT

Belying fears that a strengthening rupee will adversely impact India's competitiveness in the global market, the country's export growth has accelerated to a seven-month high in May.

Shipments rose 12.4 per cent to almost \$28 billion for the second month of the current fiscal year from \$24.91 billion a year earlier, according to commerce ministry data. Growth was led by higher shipments of petroleum products and engineering goods. Imports fell 11.41 per cent, due mainly to a sharp 71 per cent drop in gold purchases.

The data will likely ease concerns, at least in the short term, that the rupee's recent gains will hurt exports. The local currency has gained nearly 13 per cent against the US dollar since touching a record low near 69 in August last year. The rupee is currently trading around 59.7 to a dollar.

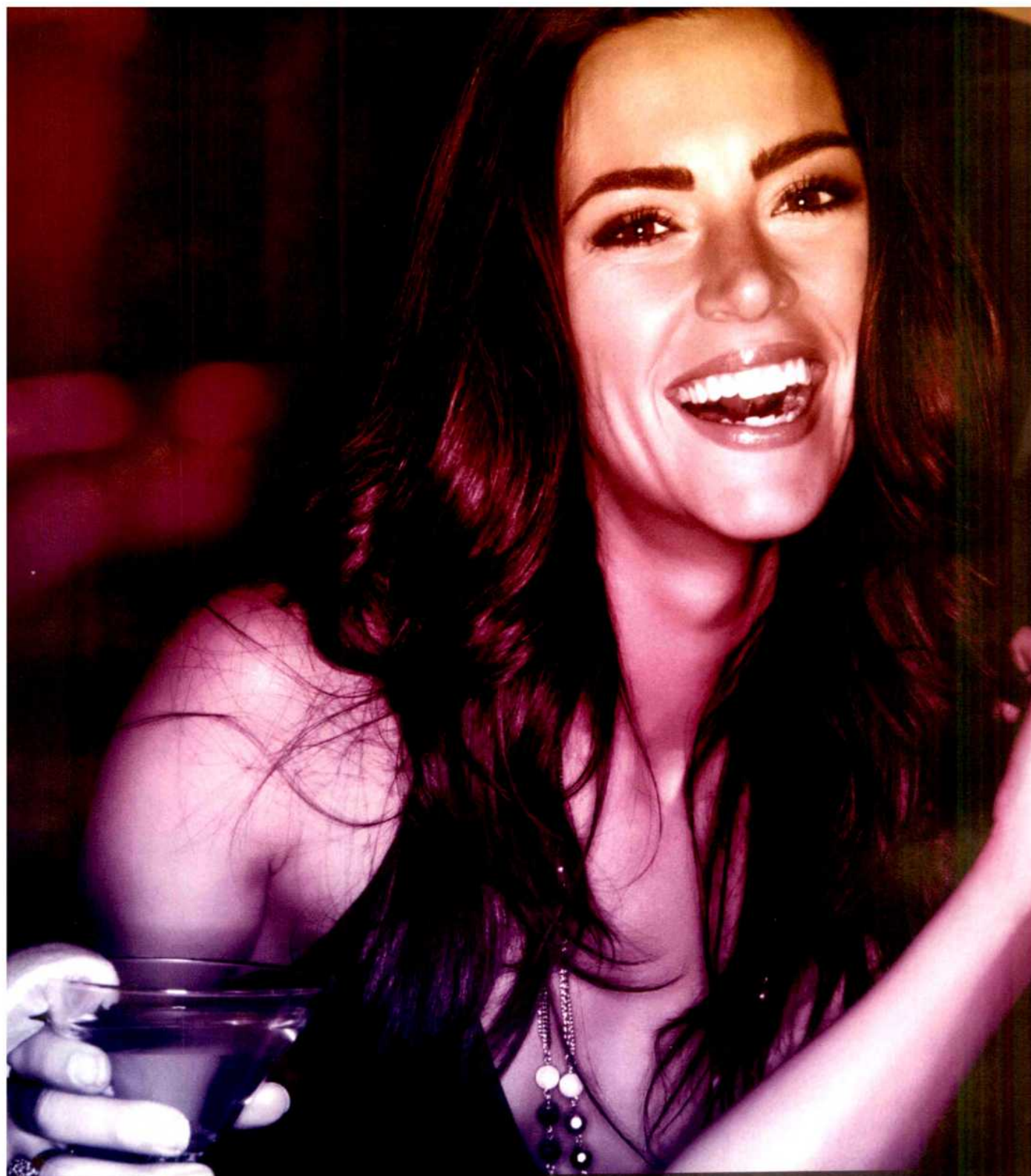
Biswajit Dhar, former director general of Research and Information System for Developing Countries, a think tank under the Ministry of External Affairs, says the export growth can be linked to the base effect. In May last year, exports had declined by more than one per cent. "The growth, however, will cre-

ate positive sentiments in the economy with its impact on the current account deficit," says Dhar, who is also a professor at Jawaharlal Nehru University. But the base effect is not the sole reason for the high growth. This is because shipments in May were nearly nine per cent higher compared with April's exports of \$25.63 billion.

The base effect will likely help the country post handsome export growth in June as well, as shipments in June 2013 had declined 4.56 per cent. The long-term growth trend, however, will be clearer from July onwards because shipments had started growing in double digits after a sharp weakening in the rupee in July and August last year made Indian exporters more competitive.

"As the unfavourable base kicks in July onwards, annual growth readings are expected to moderate," says a YES Bank report released after the trade data was announced. "However, given the upside potential that global growth recovery is likely to offer, the sequential momentum would still be positive for Indian shipments." ♦

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GENEROSITY PAYS

Life Insurance Corporation (LIC), the country's biggest insurance company with 70 per cent market share, often seems to be underwriting the government's disinvestment programme as well. Time and again, it has stepped in to pick up shares of public sector units the government wanted to shed, but hardly anyone wanted to buy. In the last two years, LIC has bailed out 11 major PSU issues. But LIC has not suffered for playing the Good Samaritan. On the contrary, it has prospered.

Text by **Jyotindra Dubey and Niti Kiran**

Graphic by **Ajay Thakuri**

1 The value of eight of the 11 investments LIC has made in PSU offers-for-sale in the last two years has risen by around 44 per cent*

PSU	AMOUNT INVESTED BY LIC (IN ₹ CR)	CURRENT VALUE (IN ₹ CR)	% CHANGE
INDIA TOURISM DEVP CORP	21.1	47.5	124.8
HINDUSTAN COPPER	177.7	305.3	71.8
MMTC	288.7	499.0	72.8
STEEL AUTHORITY OF INDIA	1,068.8	1,828.8	71.1
NATIONAL ALUMINIUM CO	209.9	293.9	40.0
RASHTRIYA CHEMICALS AND FERT	142.3	190.1	33.6
NTPC	1,751.6	1,967.0	12.3
OIL AND NATURAL GAS COMM	11,452.8	16,626.7	45.2
TOTAL	15,113.0	21,758.3	44.0

*As per data available for eight of the issues on the stock exchange and Ace Equity database. Current value as on June 10, 2014

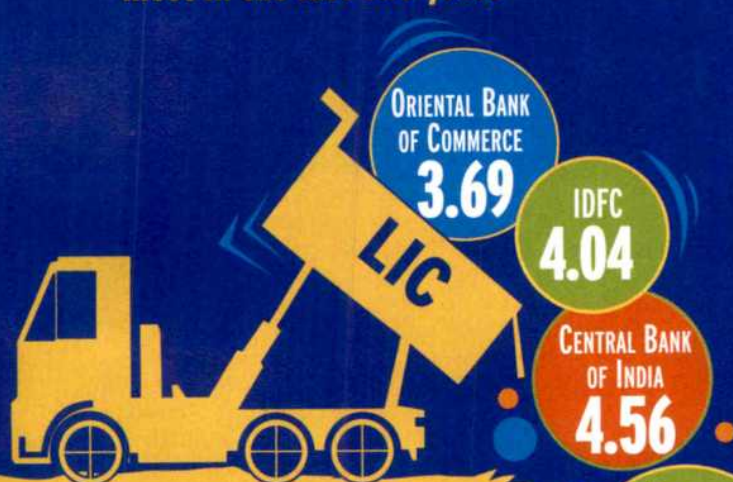
2 LIC has also been investing aggressively elsewhere by buying stake, as well as through loans and securities...

LIC's Total Investments



Figures in ₹ crore, Investment through Loans, securities, etc

3 The 10 companies whose shares LIC has offloaded the most in the last two years**



Top 10 companies where LIC has offloaded shares

** Between March 2012 and March 2014; Figures in %

4 The 10 companies where LIC has acquired the highest equity in the last two years**

TOP 10 COMPANIES	% STAKE ACQUIRED
UNITED BANK OF INDIA	8.61
MARUTI SUZUKI INDIA	6.63
RASHTRIYA CHEM & FERT	6.45
YES BANK	6.2
CAIRN INDIA	5.78
VAKRANGEE	5.63
HINDUSTAN COPPER	5.18
GITANJALI GEMS	4.89
INDRAPRASTHA GAS	4.81
MMTC	4.81



Time Conscious

App Name: Shifu; Free

If you are looking for ways to improve your time management, this is the app for you. It keeps running in the background and tracks when and how your phone is being used. It helps you remember what's important to you and when to do it. Instead of going off at a pre-defined time to remind you of your tasks, Shifu suggests them when the phone is not in use and you presumably have some free time.

**AN APP TO
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PHONE FROM LG
AND A HYBRID
FROM HP**



Up a Notch

Breaking the pattern of the new flagship smartphone replicating the looks of its predecessor, LG has done a superb job with the G Pro 2. Watching videos and playing games on the big HD display – sharp, with vibrant colours – was a delight. So was handling documentation. The couch keys for home, menu and back have been moved up to the display. Answering calls by holding the device next to the ear was comfortable because of its compact size, unlike the Samsung Galaxy Note 3 which posed problems. The battery, however, struggled to last a day on a single charge.

SPECS: 5.9-inch IPS display; 13 MP camera; 2.26 GHz processor; 3 GB RAM; 16 GB internal storage, micro SD card support; Android 4.4; 172 grams; 3200 mAh battery



Display; OS;
Camera



Size;
Battery

LG G Pro 2 Price: ₹51,000

HP Pavilion 11x360 Price: ₹39,990

Looks Aren't Enough

Taking on Lenovo's popular Yoga series and other convertible laptops, HP has come out with its hybrid, Pavilion 11x360. Designed as an entry-level laptop, it can be used as a tablet too. (The dual hinge makes it flexible enough to be converted into a tablet.) It has an eye-catching design and smooth finish.



Design,
Windows
8.1, Touch

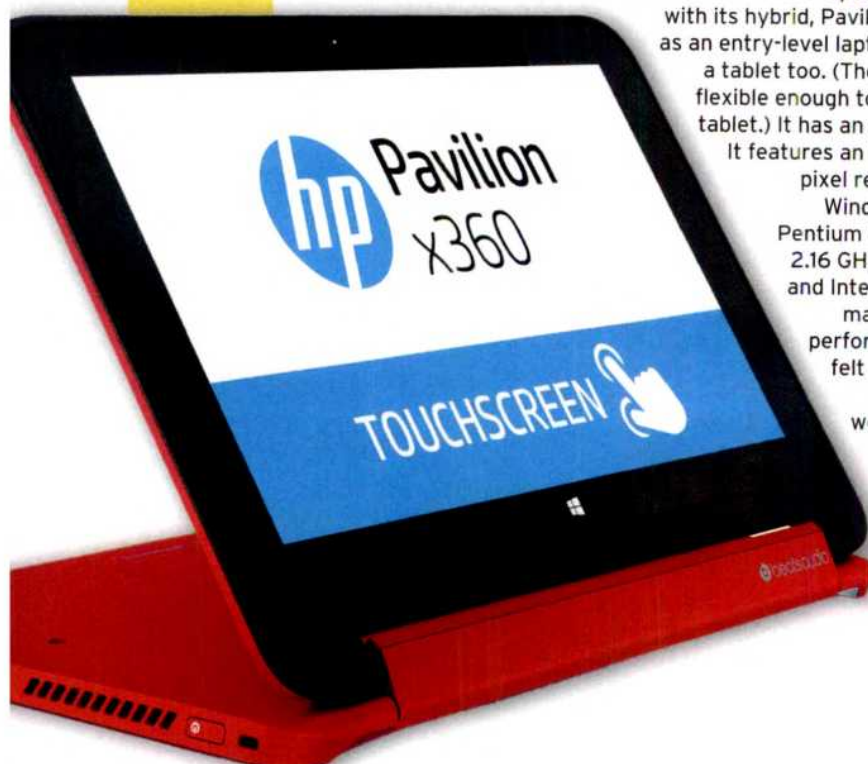


Slow, heavy
to use as
tablet

It features an 11.6-inch touch display with 1366 x 768 pixel resolution and weighs 1.4 kg. Running on Windows 8.1 OS, it is equipped with the new Pentium N3520 quad core processor clocked at 2.16 GHz. It has 4 GB of RAM and 500 GB HDD and Intel HD graphics. However, setting up this machine for use took a very long time. Its performance too was just about average and felt slow. By tablet standards, it is also too heavy to hold. A detachable keyboard would have been a better idea. When the screen is tilted beyond the laptop mode, the keys and the trackpad get disabled. The viewing angles aren't very good either.

SPECS: 2.16 GHz quad core Intel Pentium; 4 GB RAM; 500 GB HDD; Intel HD graphics; 11.6-inch (1366 x 768 pixels) touchscreen; Windows 8.1; HDMI out; 1 x USB 3.0 + 2 x USB 2.0; 1.4 kg

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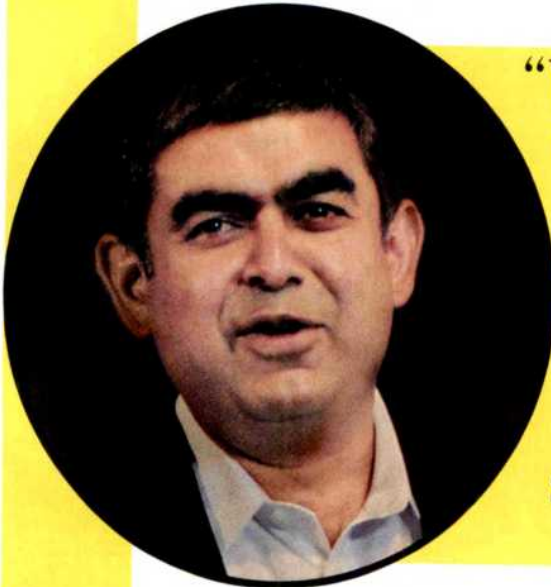
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FOCUS On Record/ Infosys gets its first non-founder CEO

"Vishal (Sikka) brings valuable experience as leader of a large, global corporation. His illustrious track record and value system make him an ideal choice to lead Infosys"

N.R. Narayana Murthy, Co-founder, Infosys, in a press release



"We, at Infosys, have a unique opportunity to deliver breakthrough solutions that will bring greater value to our clients, employees, investors and other stakeholders"

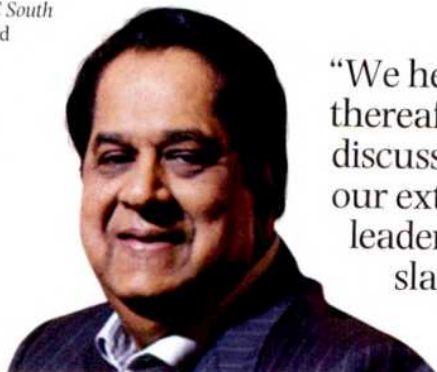
Vishal Sikka, new CEO & MD, Infosys, in Forbes India

"... WITH HIS EXTENSIVE EXPERIENCE IN SAP, HE ALREADY HAS A DEEP UNDERSTANDING OF WHERE INFOSYS NEEDS TO GO, AND WHAT IT NEEDS TO DO TO GET THERE"

Jaideep Mehta,
VP and General Manager, IDC South Asia, in Business Standard

"One of the foremost minds in the technology landscape, his entry into the Indian software industry will boost its profile in the global arena"

T.K. Kurien, Chief Executive and board member, Wipro, in The Economic Times



"We held interviews with four candidates and thereafter, we narrowed down. We had further discussions on Vishal Sikka as the leader from our external slate. We then benchmarked the leaders from the external slate to the internal slate and decided that he was the most suited to lead Infosys"

K.V. Kamath, Lead Independent Director, Infosys, in Forbes India



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Midas touch: Balram Garg, Managing Director, PC Jeweller, at his Karol Bagh showroom in Delhi

VIVAN MEHTA/WWW.INDIA100PHOTOS.COM





SHINING AGAIN



Jewellery retailers push ahead with ambitious expansion plans, spurred by an easing of the curbs on gold imports. By SHAMNI PANDE

Poonam Bansal, a Gurgaon-based homemaker, had been putting off buying gold jewellery for the last three years. But now she is ready to shop. Her decision has a lot to do with the plunge in the price of the yellow metal after the Reserve Bank of India eased its import in May. Gold prices fell below the ₹27,000 per 10 gm mark in May from a peak of ₹32,460 per 10 gm in November 2012. According to India Ratings & Research, a Fitch group company, gold prices in 2014/15 are likely to hover in the range of ₹25,500 to ₹27,500 per 10 gm.

"Gold has the second highest share in India's imports. So easing of curbs has had an impact on price," says Neelesh Hundekari, Partner, AT Kearney. In May, the RBI allowed the import of the precious metal by large private gold importers with a caveat that at least 20 per cent of the amount brought in would eventually be exported out of the country as finished product.

But there are also many who, unlike Bansal, have been buying gold irrespective of its price. "My sister did not wait, she has been shopping for jewellery consistently every year," says Bansal. No wonder, gold retailers such as T.S. Kalyanaraman, Chairman and Managing Director,

Kalyan Jewellers, say prices make no difference to his business. "Gold prices may increase or decrease but customers will remain happy," he says.

The drop in gold prices came after a decade of hardening—from ₹5,332 per 10 gm in 2002 to ₹30,164 per 10 gm in 2013. According to the AT Kearney report, however, even with gold prices rising about 3.8 times between 2005 and 2012, demand for gold jewellery in terms of volume remained steady. In terms of value it grew 4.2 times in nominal terms, despite higher import duties. "Indians buy gold jewellery also as an investment, given the lack of other options," says Hundekari.

Kalyanaraman agrees. "Indians will be happy if gold prices increase because they know that the value of ornaments they possess is appreciat-

ing," he says. He adds that consumers are equally happy if prices dip, since they can now buy more gold jewellery. This is the reason he has been laying great emphasis on expansion, and spending on advertising as lavishly as fast moving consumer goods companies do. Kalyan Jewellers has invested ₹1,300 crore to beef up its retail store strength to 55 showrooms across the five southern states, Gujarat, Maharashtra, Delhi and Punjab. It has also set up six showrooms in the United Arab Emirates. It plans to add 17 more in India and 11 in West Asia. "We have an advertising and marketing spend of ₹200 crore this year," he says.

He is not alone. Titan Industries' jewellery arm Tanishq opened over 30 stores in 2012 and 2013. "This

SCALING UP: Store expansion by jewellery retailers

RETAILERS	2005	2010	2013	FUTURE PLANS
TANISHQ	84	148	200	To open 30 new stores
JOYALUKKAS	6	22	42	Pan-India expansion plan
RAJESH EXPORTS	0	30	82	500 showrooms by 2015
TBZ	2	14	27	43 new stores in 2013/15
P.C. CHANDRA	10	18	24	Double presence in 2 years
KIRTILALS	3	7	10	Focus on retail space expansion, not new stores

Future plans of Reliance Jewels, which had 51 stores in 2013, were not available

Figures show number of stores

year we hope to add 30 more stores amounting to 75,000 sq. feet of retail space," says C. K. Venkataraman, CEO, Jewellery Division, Titan.

Tanishq was unwilling to share details of its investment on expansion and advertising. But its high-decibel promotional campaigns using celebrities such as Amitabh and Jaya Bachchan, Sridevi and Kangana Ranaut make its approach clear.

The domestic gems and jewellery industry had a market size of ₹2,51,000 crore (\$41.61 billion) in 2013, with the potential to touch ₹5,00,000 to ₹5,30,000 crore (\$82.94 to \$87.93 billion) by 2018, according to a FICCI-AT Kearney report. Gold jewellery accounts for about 30 per cent of this market.

About 80 per cent of the jewellery market consists of local and regional players who have, at best, just a few stores. These too have been growing at eight to 10 per cent over the past five years, according to industry experts. The branded jewellery chains, in comparison, have seen growth of up to 30 per cent. "Quality of gold is an issue people are waking up to. They are switching to branded jewellery which has led to growth in our segment," says Balram Garg, Managing Director, PC Jeweller (PCJ).

Some branded chains have begun targeting the smaller towns and cities. PCJ, for instance, is scaling up operations by adding 100,000 sq. feet of retail space this year, largely in the Tier-II towns. "We find great demand for branded gold in Tier-II towns. Our push has been equally distributed towards these markets," says Garg. This year the company intends to set up 17 retail showrooms in markets such as Guwahati, Ranchi, Patna and Jammu. This will take its presence up to 58 stores across the country. "We will be investing ₹700 crore on our expansion from internal accruals," Garg adds.

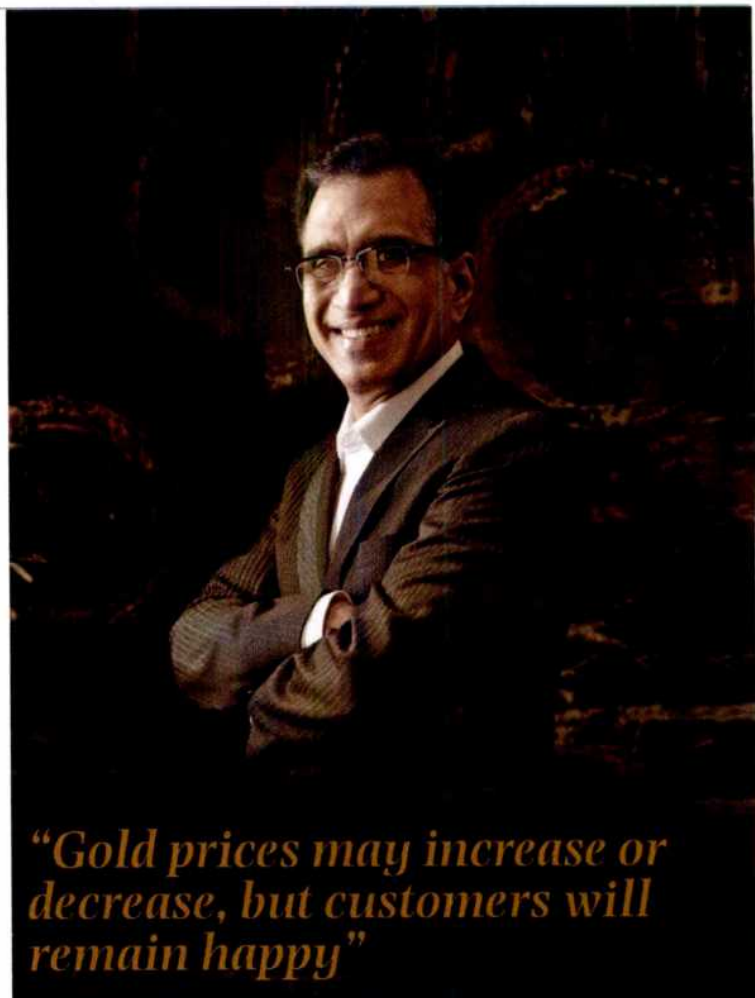
Several regional players too are exploring markets outside their home territory. Senco Gold from the

east is looking to expand outside its region. Corporate brands such as Reliance Jewels have expanded operations across the country. Gitanjali Group, one of the older brands in the country, is doing the same. Meanwhile, Dubai-based jew-

eller Joyalukkas is, according to industry sources, investing upwards of ₹500 crore to set up showrooms in north India.

PE investors are also getting interested in jewellery retailers. "I think branded jewellery has tremendous growth potential. Consumers will continue to look for great designs and trust in quality. PE players will be interested in online and offline jewellers. I think there is tremendous opportunity for both," says Vani Kola, Managing Director, Kalaari Capital, one of the PE investors in BlueStone.com, an online jeweller.

The Indian gold jewellery market then appears poised for rapid growth over the next few years. ♦



T.S. KALYANARAMAN, CMD, Kalyan Jewellers



₹2,51,000 cr

Size of gems and jewellery market in 2014

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Prakasam
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Vishakhapatnam
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West Godavari

AJAY THAKURI





Video interview with K.V. Vishnu Raju at
www.businesstoday.in/telangana-raju

BEFORE DRAWING UP AN ECONOMIC ROADMAP, TELANGANA AND ANDHRA PRADESH HAVE TO TACKLE VEXED ISSUES LIKE TAX AND POWER. By E. KUMAR SHARMA

The night leading to the dawn of June 2 was a watershed for a generation that had vowed to fight for a separate state of Telangana even if it meant living only on stew made of tamarind. So they all celebrated the successful end to their nearly six-decade-long struggle. In this period there have been many arguments for and against the idea of dividing the erstwhile Andhra Pradesh. Nevertheless Telangana was a foregone conclusion. Now the newborn states are slowly waking up to their economic reality and the challenges ahead.

The secretariat in Hyderabad now stands divided with separate blocks for Telangana and Andhra. Hyderabad will remain the joint capital for both states for the next 10 years, after which Andhra Pradesh will have to look for a new capital. On the second day in his makeshift office, Telangana information technology and communication minister K.T. Rama Rao is buoyant. "What was mission impossible has become possible," he said. Rama Rao is also the panchayat raj minister and son of chief minister and TRS supremo K. Chandrasekhar Rao. However, people living outside the 10 districts of Telangana are yet to come to terms with a divided state with the capital in the other state.

Just 15 km away from the secretariat, at the posh Jubilee Hills locality of Hyderabad, N. Chandrababu Naidu, the new chief minister of Andhra Pradesh, was eager to reach out to investors. "I need to build from the foundation and need special status and incentives for the industry. I want to make Andhra the hub of hardware and energy," Naidu had told the *Business Today* on May 16, the election result day. Meanwhile, in his first public speech after taking charge as Telangana's first CM, Rao had declared that he wanted to make the state 'the seed bowl' of India. He also wanted to push growth in the traditional sectors like IT and pharma that have fuelled the growth of

Hyderabad. With the bifurcation of the state, Hyderabad is now undoubtedly the jewel of Telangana.

While Rao is getting ready to draft an "industry-friendly policy" for Telangana, Naidu is expected to leverage his lobbying power with the Modi government at the Centre for concessions. "Policy paralysis had hurt Hyderabad... I want to correct that and I have reached out to all major investors in

"We want to make Telangana the seed bowl of India. We will come out with an industry-friendly policy"

K. CHANDRASEKHAR RAO,
 Chief Minister, Telangana



"We want to make Andhra the hub for hardware and energy. We want special status for the state to attract investors"

N. CHANDRABABU NAIDU,
 Chief Minister, Andhra Pradesh





“There is need for clarity on the status of GO 53 that provides for power allocation between the discoms”

USHA RAMACHANDRA,
 Chairperson, Energy Area, Administrative Staff College of India, Hyderabad

the IT sector who are already the investors here. I am persuading them to expand and many of them are willing to. I am promising them political and economic stability,” says Rama Rao.

At the crux of all this machinations are a plethora of unresolved issues between the two states that need urgent attention. According to K.V. Vishnu Raju, Chairman of the Anjani Group that makes cement and ceramic tiles and also runs higher education institutions, resolving the industry concerns on state taxes comes first. “There will be lot of interdependence between the two new states and it is important that issues of taxation and power supply, the key requirements of the industry, are addressed quickly,” he says. Elaborating on the specific concerns, Raju says, “If you have a manufacturing facility in Telangana and a captive power plant in Andhra, it is now an inter-state sale of power.”

Raju says rationalisation of taxes is most important mainly because under a combined state the sale of goods attracted Value-Added Tax (VAT). “But post bifurcation, industries would have to transfer their stock, open godowns and pay additional local taxes in the other state,” he says. Suresh Rayudu Chitturi, Chairman of Andhra Pradesh chapter of CII and Vice-Chairman and Managing Director of Srinivasa Hatcheries, too has similar concerns. “Movement by companies located in Telangana

and Andhra would become inter-state job work. This would entail related stock transfer and credit reversal,” he says.

According to a recent Ernst & Young report titled ‘Andhra Pradesh bifurcation’, the new Andhra Pradesh may get larger per

capita transfers from the Planning Commission and the Central ministries thanks to the special category status for a period of five years. Telangana on the other hand stands to gain more as it may get per capita transfers from both the plan panel and the Finance Commission due to its less developed low per capita income districts, the report states.

The report also points out that the tax bases will have to be divided between the two states depending on the distribution of economic activities. “Enterprises (both public and private) operating in the combined state with headquarters in Hyderabad may stand at the risk of paying a significant share of state taxes in Hyderabad. As a result, the division of such enterprises based on the location of their production facilities will also divide tax revenues,” the reports states. It further states that this will “give rise to complexities pertaining to the recovering of tax arrears”.

On the division of assets, liabilities and government employees, the report says, “The broad principle that will be followed for the division of physical assets of the erstwhile Andhra Pradesh government between the two new states will be based on the location of the assets. In cases where this cannot be applied, the division will be based on the respective share of population.”

The division of government employees too will be based on Andhra Pradesh Reorganisation Act 2014. “In relation to the IAS, IPS and

YET TO BE RESOLVED

- Status of Government Order 53 on allocation of power
- Clarity on the role of state and central regulators as things move from intrastate to interstate
- Resolve differences over the Polavarum project
- Complete projects dependent on surplus water in both states
- Resolve issues around inter-state taxes. Review position on VAT and focus on rationalisation of taxes
- Movement of vehicles and entry tax issues
- Input tax credit in cases where goods have been sold/ invoiced before June 2
- Division of liabilities, assets, government staff



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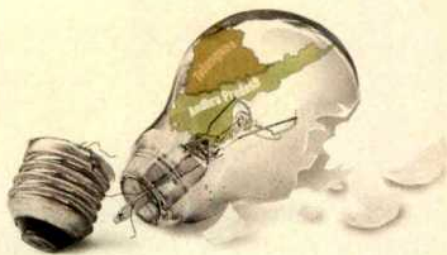
The Dark Side of Two States

Power shortage could turn away prospective investors

No promise or incentive is more lucrative for an investor than uninterrupted power supply. While both Andhra and Telangana are busy wooing investors, a reality check on the power sector tells a different tale. All the four distribution companies (discoms) of the erstwhile Andhra Pradesh are in the red.

According to the annual reports of discoms for 2012/13, the net loss for Andhra Pradesh Central Power Distribution Company Ltd (now Telangana South Distribution Company) was ₹7,718.29 crore. While the loss for Andhra Pradesh Eastern Power Distribution Company Ltd

was ₹1,680.55 crore, it was ₹4,675 crore for Andhra Pradesh Southern Power Distribution Company Ltd (APSPDCL) and ₹3,436.07 crore for Andhra Pradesh Northern Power Distribution Company Ltd (now Telangana North Distribution Company).



According to the Central Electricity Authority, the anticipated deficit for the two states combined for 2014/15 is 15.3 per cent and the peak deficit 21.4 per cent, one of the highest in the country. The energy deficit is the difference between demand for power and that actually generated. Peak deficit is the power deficit during the peak hours. In the short-run, how industry friendly the states are would depend on the ability of discoms to fill the demand-supply gap by sourcing short-term power through bilateral trade or by procuring it from captive power plants. The ability to do this depends on the financial prowess of the respective discoms/governments.

The only major relief is the fact that since January the Power Grid Corporation has linked the southern power grid to the national grid. This has made it easy to transmit power from one state to another. Meanwhile, all long-term power purchases have been allocated as per the Government Order (GO) 53 of 2008. In 2014, as per the Andhra Pradesh Reorganisation Act, it was modified to attach Kurnool and Anantapur districts to the APSPDCL. "The two governments need to strengthen the discoms," says L. Madhusudhan Rao, Executive Chairman of power and construction company Lanco Infratech.

The obvious question for investors is will the states be able to replicate the Gujarat model of Jyoti Gram that provides uninterrupted power supply. Usha Ramachandra, professor and chairperson, Energy Area at the Administrative Staff College of India, says it is possible but requires upfront investment to segregate the feeders. "There is no point in feeder segregation if there is no commitment to meet the power needs of the non-agriculture load. The low tension lines and last mile connection should be upgraded or else the distribution loss would go up on account of uninterrupted supply," she says.

Indian Forest Service, two separate cadres will be created. From the day of bifurcation, the employees of PSUs, corporations and other autonomous bodies will continue to function in such undertaking, corporation or autonomous bodies for a year. During this period, the concerned corporate body will have to determine the modalities for distributing the personnel," the Act states.

The immediate challenge for the two new states lies in the power sector. The undivided Andhra Pradesh, as on March 31, 2013, had a total installed capacity of 16,389 megawatt, of which around 2,500 MW was gas based and lying nearly idle. Close to 4,000 MW was generated from hydel power and around 450 MW from renewable sources like wind and solar power. While power generation from hydel projects was seasonal, the same from renewable sources had a low plant load factors.

The power demand across the two states was 11,630 MW and this implies that there is a constant need to buy power to bridge the gap. "States need to find resources for this and for all the short-term power purchase need to plan in advance," says Usha Ramachandra, Professor and Chairperson, Energy Area, Administrative Staff College of India.

According to her, to settle issues related to power, both states need to focus their attention on the status and validity of GO 53 of 2008. The order provides for the allocation of power between the power distribution companies.

However, Rama Rao is confident that solutions will be hammered out through discussions. "There are a lot of interstate issues where the industry is worried like the VAT. Certainly we can sit and talk to our neighbouring state as they are our Telugu brothers. Whatever is in the interest of the industry, we would be happy to talk to Naidu and sort out the issues," he says. ♦

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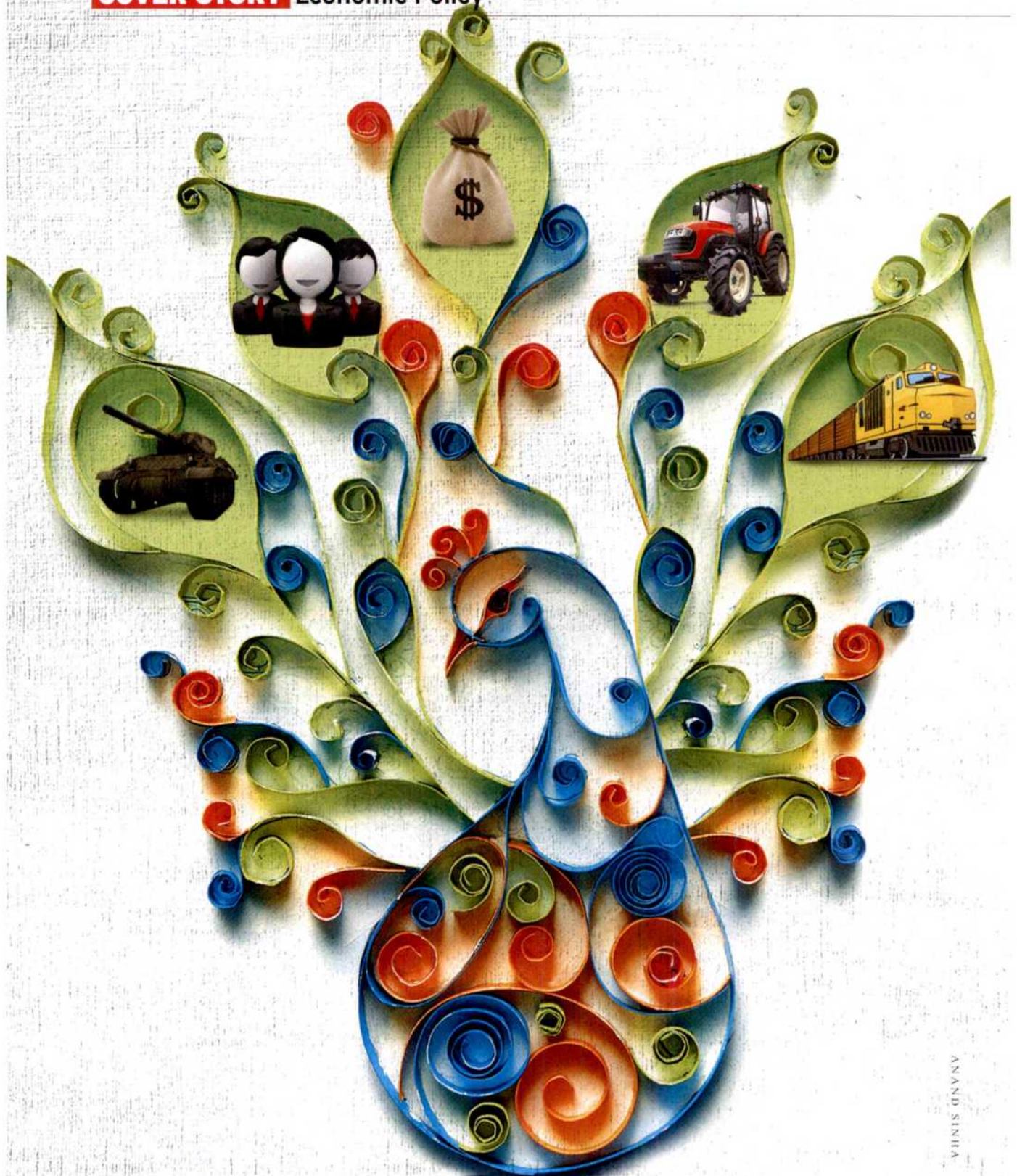
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Delhi - Milan - Rome - Delhi* (on Tue, Thur & Sat)		
Delhi - Milan	14.20	19.30
Milan - Rome	21.00	22.10
Rome - Delhi	23.35	10.15 + 1

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THE NEW FACE OF SWADESHI

The BJP's earlier stint in power had it clashing repeatedly with the RSS on economic policy. The RSS harped on self-reliance, while the BJP-led government opened up several new sectors to FDI. A pragmatic Narendra Modi government is now setting the stage for neo-Swadeshinomics.

By SHWETA PUNJ

Circa 2001. The then finance minister of the Bharatiya Janata Party (BJP)-led National Democratic Alliance (NDA) government, Yashwant Sinha, found his free market policies running into a wall of opposition from the Rashtriya Swayamsevak Sangh (RSS), a strong votary of the swadeshi brand of economics. Sinha, a firm believer in free markets, was pushing for opening up of various sectors to foreign direct investment (FDI), including insurance, retail, education and media. A note prepared by the

commerce ministry under the then minister, Murasoli Maran, in 2001, had even pitched for 100 per cent FDI in single and multibrand retail.

The intent to open up the economy went against the swadeshi philosophy of 'self-reliance,' and strained relations between the NDA government and the RSS, widely seen as the ideological patron of the BJP. Sinha was eventually replaced by Jaswant Singh. It was the stiff opposition from the RSS that stopped the government then from allowing more than 26 per cent FDI in insurance and opening up the education sector.

A decade after it was voted out in 2004, the NDA government is back in power again. Much has changed

since then. Globalisation has seen India's consumption basket evolve. It has also strengthened the domestic industry, which has shown it can take foreign competition head on and thrive. This has muted the RSS's opposition to further opening up of the economy. "You won't find the same voices of concern," says an RSS ideologue on condition of anonymity. "But there is a certain degree of caution still." It is evident that the RSS, which continues to exercise considerable influence on the government's policies, recognises the change in the ground realities.

This is obvious from a meeting with Ram Madhav, spokesperson of the RSS. Visitors at his New Delhi of-

"Our idea of swadeshi is very broad, India's economic sovereignty should be protected. Sectors that generate employment in India should be opened to FDI"

RAM MADHAV, Spokesperson of RSS



From Prime Minister
Narendra Modi's first speech in
Parliament:

*"Will empower the poor to enable them
to fight poverty and come out of it"*

*"No one will leave his village if it is provided
24 hours-power, good education facilities
and industry for employment"*

*"We should concentrate on agro-based
industries. We need real time data on
agri-products and increase in
investment on agriculture"*



Neo-swadeshinomics

What swadeshi means to the new BJP-led government

IMPACT, NOT SOURCE

Swadeshi is no longer just about home-grown industry but about branded goods and big business that generates jobs and adds value to the economy

FDI, IF THAT'S WHAT IT TAKES

Swadeshi now encompasses being more open to foreign investment in sensitive sectors such as defence and retail (an indication for opening up of e-commerce). Government could consider FDI in retail in a few years with safeguards

rice are sure to be offered Rooh Afza or mango juice without preservatives. A gold iPhone, a laptop and Mont Blanc planners rest on his desk as he speaks about the need for India to perform a fine balancing act between foreign investment and protecting the country's economic sovereignty. "Our idea of swadeshi is very broad, India's economic sovereignty should be protected. Sectors that generate employment in India should be opened to FDI," he says.

The RSS's validation of FDI comes at a time when it is becoming increasingly clear that the Narendra Modi-led government will be pragmatic in its policies and will look to invite FDI into a host of new sectors. Finance and Defence Minister Arun Jaitley has hinted at the government's intent to hike the FDI cap in defence manufacturing to 100 per cent from 26 per cent at present. Hiking FDI in defence has faced stiff

resistance from the defence ministry so far. The government is also planning to allow FDI in high-speed train systems, suburban corridors, high-speed tracks and freight lines connecting ports and mines, e-commerce and construction.

Unlike during the earlier phase of

NDA rule, swadeshi economists are now convinced of the need to invite FDI in infrastructure and defence, sectors which will create jobs and add to the country's technology bandwidth. But there are some reservations about the extent of FDI required in different sectors. Several conversations with RSS members reveal they would prefer 100 per cent FDI to remain an exception, if at all, and that, if they have their way, financial services and education could remain out-of-bounds for foreign money.

Free-market economists such as Lord Meghnad Desai are almost contemptuous of the idea of swadeshi and its utility in modern-day India. "Swadeshi is a complete waste of time. The idea of economics is that you don't worry about where things are made, you concentrate on what you do better," he says. "One part of the RSS believes in swadeshi, while the other, more sophisticated part has

WHAT'S CHANGED, WHAT'S NOT



Protests against GM crops by RSS affiliates unlikely this time



Opposition to further opening up the financial sector may continue

FOCUS ON OUTCOMES

Swadeshi is about jobs, growth, infrastructure, technology. If it means being pro-business, so be it

EXPAND SPAN OF ECONOMY

Swadeshi will not preclude forging extensive trade relationships with the world. The Swadeshi Jagran Manch protested against India's entry to the WTO in the early 2000s

ELECTRONIC CHIPS (AND POTATO CHIPS) ARE WELCOME

The BJP and RSS have adapted to the effects of globalisation on consumerism, are no longer concerned with what Indians should consume

From President
Pranab Mukherjee first speech after the
Narendra Modi government was sworn in:

"The backbone of my government's new way of working will be a digital India"

"The government will chalk out an ambitious infrastructure development programme to be implemented in the next 10 years"

"The government will initiate a mission mode project to create 50 tourist circuits that are built around specific themes"



moved on. The so-called Hindu nationalist government is talking about 100 per cent FDI in defence. Once upon a time, the same people were saying no to foreign technology."

Embracing Change

The Jana Sangh, the ruling BJP's earlier avatar, along with a host of other political parties had strongly opposed the use of technology in banks in the 1970s, arguing that it would lead to loss of clerical jobs. In contrast, India's Prime Minister Narendra Modi and the BJP have spoken of building a "Digital India" and cities coming up along information highways. Modi was one of the first adopters of technology in governance – from making land acquisition processes more transparent to holding video conferences with villages to simplifying grievance redressal mechanisms – and ran the most sophisticated election campaign ever

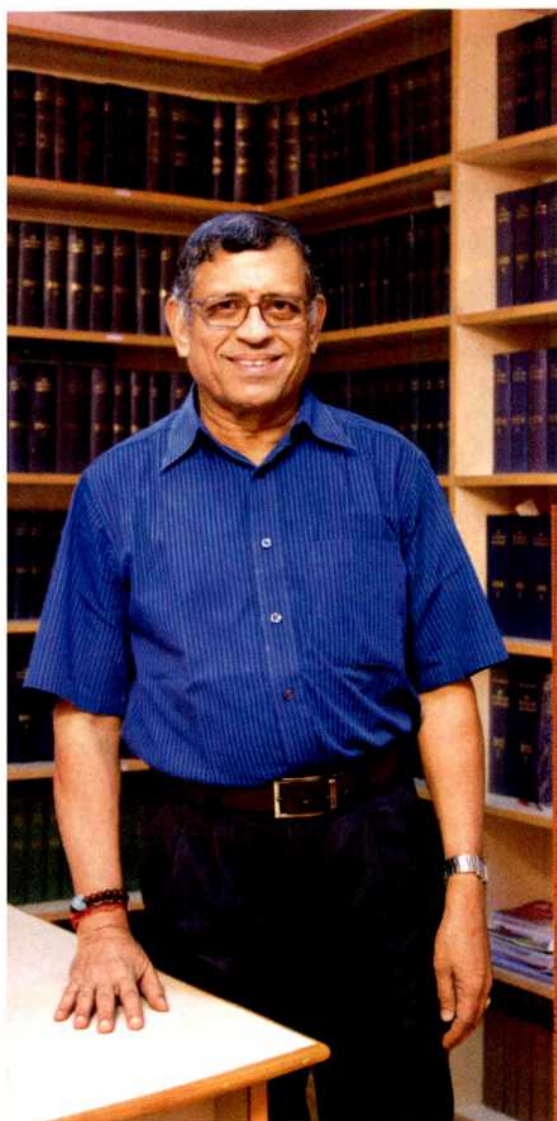
witnessed in India's electoral history.

Today, some RSS ideologues argue that they were always pro-liberalisation. While the Swadeshi Jagran Manch (SJM), the economic wing of the RSS, opposed India's membership of the World Trade Organization (WTO), it says it has always shunned Nehruvian socialism and stood for open markets and dismantling of the licence and quota raj. The Jana Sangh was criticised as a rich man's party for supporting free enterprise. But even as the BJP has supported the cause of free markets, it has always advocated economic safeguards and vehemently opposed addition of more items – particularly those of commodities and capital and agricultural goods – to the import list during the NDA's first stint in power.

S. Gurumurthy, economic thinker and co-convenor of the SJM, believes that unchecked imports was one of the key reasons why India

slipped from a current account surplus to a current account deficit (CAD) at present. The current account is a measure of a country's foreign transactions – a high CAD can be inflationary and also lead to currency depreciation. During the first stint of the NDA government, a current account surplus – \$22 billion – was reported for the first time since 1978. Under the Congress-led United Progressive Alliance (UPA) government, India posted a CAD of \$89 billion in 2012/13, a record in a financial year. The UPA has cited gold and oil imports as reasons for the high CAD. But Gurumurthy argues it was also a result of skyrocketing capital goods imports, which shot up from an average of \$10 billion a year in the NDA period to \$65 billion in nine years of the UPA regime (2004/05 to 2012/13).

Extraordinarily high imports of capital goods nearly brought manu-



AR SUMANTH KUMAR

facturing to a halt, says Gurumurthy. Indeed, in the first four years (2004/05 to 2007/08) of the UPA government, the Index of Industrial Production (IIP) growth averaged about 11.5 per cent. For the next five years, IIP was down to an average of about five per cent. Meanwhile, capital goods imports during this period soared – of the total \$587 billion in nine years, \$407 billion was in the last five years. Such statistics, which indicate heavy imports of manufactured goods and a slide in domestic factory output, run completely con-

trary to the swadeshi model of economics, which is based on the concept of “self-reliance”. “We destroyed manufacturing sectors by allowing imports. Nation should have the capacity to produce goods and services,” says swadeshi agri-economist Devinder Sharma.

However, D.K. Joshi, Senior Director and Chief Economist at Crisil, does not hold the rise in capital goods imports as the reason for India’s sliding fac-

“You cannot get technology (in defence) unless you create an arms manufacturing hub. Once you have technology with foreign investment, and technology grows in India, then there is no issue”

S GURUMURTHY,
Co-convenor of SJM

tory output. “India’s manufacturing activity has weakened because of domestic inefficiencies, whether it is infrastructure or power. We should try to make our industry competitive,” he says

The New Age Swadeshi

Nearly 50 per cent of India’s GDP still comes from the unorganised sector. According to the economic survey of 2012/13, only about 11.4 million

are employed by the corporate sector. Some 90 per cent of employment comes from the unorganised, informal, non-corporate sector which is largely sustained on relationships and not formal financing. It is creating an ecosystem for this unorganised sector which forms an important aspect of swadeshi.

“With FDI in defence, it is not as if they are giving up swadeshi. FDI in defence will augment domestic production capacity, in a way it is import substitution. The modern face of swadeshi is domestic production with state of the art technology,” says economist and policy advisor with Ernst and Young, D.K. Srivastava. “The BJP does realise that globalisation is irreversible. So, it is swadeshi with a more modern face.”

Most senior RSS leaders concur. “We did allow single brand retail, that’s how you have foreign brands in India. But it will be premature to open up multibrand retail to FDI at least for the next few years, and then perhaps we could look at it but with enough economic safeguards,” says an RSS ideologue.

Foreign investment that could displace commercial, trading and non-production (carpentry, masonry, etc.) activities will be a departure from the swadeshi code.

“In defence, swadeshi has nothing to do with foreign investment, it is to do with foreign technology. India is one of the greatest importers of arms, but it does not use its buying power to get technology,” says Gurumurthy. “You cannot get technology unless you create an arms manufacturing hub. Once you have technology with foreign investment, and technology grows in India, then there is no issue.”

The SJM faced strident criticism when it opposed India’s entry into the WTO. The outfit though claims that its stand is somewhat vindicated today, pointing out that talks



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DGTCP Haryana has granted License Number 106 & 107 dated 26.12.2013 to the developer, Sarv Realtors Pvt Ltd (100% subsidiary of Supertech Ltd) for Group Housing scheme on 27.493 acres. Approved building plans Memo No ZP-957/SD(BS)/2014/8469 dated 30/4/14. Total number of units 2092, total number of EWS units 372. Provision of primary school, nursery schools, shopping centre, community building. All the approvals can be seen in the office of the developer.

*Conditions apply. All buildings, information, specification, etc. are tentative and subject to variation and modification by the company or the competent authorities sanctioning such plans. Images are for representative purpose only. *1 sq. mtr. is equal to 10.76 sq. ft.

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at WTO have collapsed due to the members' inability to reach a consensus on farm subsidies and industrial tariffs. But there is also a growing realisation now that India needs to strengthen its trade ties with the rest of the world and engage with it on its own terms. During the days of the Jana Sangh in the 1970s, India's exports and imports made up about seven per cent of its GDP – today it makes up for nearly a quarter of India's GDP.

There was a lot of focus earlier on the consumption basket of goods that had to be in consonance with Indian values and there was much resistance to western goods. Swadeshi was not just about production capacity but also about



"Swadeshi is a complete waste of time. The idea of economics is that you don't worry about where things are made, you concentrate on what you do better" LORD MEGHNAD DESAI, Economist

what is to be produced. The idea was to check the consumption of western goods but the SJM does not highlight this aspect of swadeshi any longer. "Consumption patterns have globalised much faster than production capacity. Consumption basket has converged and there is no visible objection to this," says Srivastava.

Fresh thinking on trade and economic ties with the world is evident with the Modi government's focus on reviving strategic relationships from day one – from inviting leaders of South Asia to his swearing-in-ceremony to discussing trade and economic engagement with the visiting Chinese finance minister.

"We are dependent both for productive resources that can be brought into the economy and we need global economy to grow so that they can absorb goods produced in the country," adds Srivastava.

Dissenting Voices

Swadeshi doctrine then is reinventing and adapting to the changing economic realities. But it will be a while before the believers in the swadeshi model are convinced of the need for 100 per cent FDI in some sectors – there are already murmurs of dissent on the possibility of opening up defence completely.

The Bharatiya Mazdoor Sangh,

an RSS affiliate, has mounted a protest against proposed labour reforms in Rajasthan. Chief Minister Vasundhara Raje, considered to be close to Modi, has unleashed dramatic changes to labour laws which, reformists argue, have held back job creation. Raje has made it easier for business to hire and fire – reforms that have been vehemently opposed by the left and trade unions alike.

Swadeshi activists also oppose the opening up of the farm equipment sector, as indicated by the Prime Minister. It will only lead to corporatisation of agriculture and the small farmer – who forms the backbone of agriculture – will lose out, they claim.

Modi's Balancing Act

It's clearly not its ideology that brought in the Modi-led government with an astounding majority, it was its pragmatism. And if pragmatic economics – which translates into "whatever is good for the nation" – is swadeshi, then India could very well adopt that model of growth. As Desai says, a broad definition of swadeshi is ordinary economics.

Expectations and sense of hope from a Prime Minister has never been higher in contemporary India. "He is the first non-socialist Prime Minister of India. You finally have a man who has a vision for prosperous India," says a third generation capitalist, Ajit Gulabchand of Hindustan Construction.

To say that Modi has a tall agenda ahead of him would really be putting it mildly. For now with his linen kurtas and designer jackets, use of Hindi as the language for official communication and seeming clarity of thought on policies and issues, Modi appears to have found the right balance, but then it is really early days yet. ♦

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PART I STATEMENT OF STANDALONE & CONSOLIDATED RESULTS FOR THE QUARTER & YEAR ENDED 31st MARCH, 2014 (₹ in crore)

Sl. No.	PARTICULARS	Standalone					Consolidated	
		Quarter Ended			Year Ended		Year Ended	
		31 st March, 2014	31 st Dec., 2013	31 st March, 2013	31 st March, 2014	31 st March, 2013	31 st March, 2014	31 st March, 2013
		Unaudited	Unaudited	Unaudited	Audited	Audited	Audited	Audited
1	Income from operations							
	(a) Net sales/Income from operations (Net of excise duty) ⁽ⁱ⁾	1825.22	2606.98	2376.58	9126.74	9525.23	9229.75	9545
	(b) Other operating income	122.93	123.40	95.17	485.96	422.34	485.96	422
	Total income from operations (net)	1948.15	2730.38	2471.75	9612.70	9947.57	9715.71	9968
2	Expenses							
	(a) Changes in inventories of finished goods	(9.33)	7.62	(22.60)	7.87	(27.37)	7.87	(27.37)
	(b) Employee benefits expense	411.49	370.12	364.58	1473.18	1310.63	1474.50	1310
	(c) Depreciation and amortisation expense ⁽ⁱⁱ⁾	224.39	220.78	239.36	1177.02	837.63	1283.45	848
	(d) Royalty & Cess	600.55	783.52	731.50	2878.85	3043.85	2884.76	3045
	(e) Other expenses	468.09	279.95	426.19	1225.20	1027.45	1240.53	1030
	Total expenses	1695.19	1661.99	1739.03	6762.12	6192.19	6891.11	6207
3	Profit from operations before other income, finance costs and exceptional items (1-2)	252.96	1068.39	732.72	2850.58	3755.38	2824.60	3760
4	Other income ⁽ⁱⁱⁱ⁾	601.43	324.04	373.24	1628.64	1530.45	1608.22	1530
5	Profit from ordinary activities before finance costs and exceptional items (3 + 4)	854.39	1392.43	1105.96	4479.22	5285.83	4432.82	5291
6	Finance costs	34.53	33.04	2.00	68.78	2.60	70.78	3
7	Profit from ordinary activities after finance costs but before exceptional items (5 - 6)	819.86	1359.39	1103.96	4410.44	5283.23	4362.04	5288
8	Exceptional items	0.00	0.00	0.00	0.00	0.00	0.00	0
9	Profit from ordinary activities before tax (7 + 8)	819.86	1359.39	1103.96	4410.44	5283.23	4362.04	5288
10	Tax expense	254.24	456.43	339.41	1429.14	1693.89	1420.06	1695
11	Net Profit from ordinary activities after tax (9 - 10)	565.62	902.96	764.55	2981.30	3589.34	2941.98	3592
12	Extraordinary items	0.00	0.00	0.00	0.00	0.00	0.00	0
13	Net Profit for the period (11+12)	565.62	902.96	764.55	2981.30	3589.34	2941.98	3592
14	Paid-up equity share capital (Face value of ₹ 10 each)	601.14	601.14	601.14	601.14	601.14	601.14	601
15	Reserve excluding Revaluation Reserves				20107.04	18610.34	19880.64	18647
16	Earnings per share (EPS)^(iv)							
	(i) Basic & Diluted EPS before extraordinary items (₹)	9.41	15.02	12.72	49.59	59.71	48.94	55
	(ii) Basic & Diluted EPS after extraordinary items (₹)	9.41	15.02	12.72	49.59	59.71	48.94	55

(i) Presently rate of Excise duty is Nil. (ii) Includes depletion and write-offs. (iii) Other income is mainly on account of interest/dividends from deposits/investments. (iv) EPS for the periods are not annual

PART II

Sl. No.	PARTICULARS	Standalone					Consolidated	
		Quarter Ended			Year Ended		Year Ended	
		31 st March, 2014	31 st Dec., 2013	31 st March, 2013	31 st March, 2014	31 st March, 2013	31 st March, 2014	31 st March, 2013
		Unaudited	Unaudited	Unaudited	Audited	Audited	Audited	Audited
	A PARTICULARS OF SHAREHOLDING							
1	Public shareholding							
	- Number of shares	194503957	189750212	189750212	194503957	189750212	194503957	18975
	- Percentage of shareholding	32.36	31.57	31.57	32.36	31.57	32.36	31.57
2	Promoters and promoter group shareholding							
a)	Pledged / Encumbered							
	- Number of shares	NA	NA	NA	NA	NA	NA	NA
	- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	NA	NA	NA	NA	NA	NA	NA
b)	Non - encumbered							
	- Number of shares	406631998	411385743	411385743	406631998	411385743	406631998	41138
	- Percentage of shares (as a % of the total shareholding of Promoter and Promoter group)	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	- Percentage of shares (as a % of the total share capital of the company)	67.64	68.43	68.43	67.64	68.43	67.64	68.43

B INVESTOR COMPLAINTS

	3 months ended 31 st March, 2014
Pending at the beginning of the Quarter	NIL
Received during the Quarter	104
Disposed of during the Quarter	104
Remaining unresolved at the end of the Quarter	NIL

- The above financial results for the quarter and year ended have been reviewed and recommended by the Audit Committee approved by the Board of Directors in its meeting held on 27th May, 2014. The financial results for the year ended have been approved by the Joint Statutory Auditors of the company.
- "Other Expenses" for the year ended 31.03.2014 include Prior Period Items viz. Depreciation, Depletion & Amortisation ₹ (0.6) crore, Consumption of Stores & Spare Parts ₹ (1.93) crore, Employee Benefit Expenses ₹ 3.61 crore and Cost of Contractual Services ₹ 17.64 crore.
- Tax expenses comprise current tax, deferred tax (net) and earlier year tax.
- In terms of Hon'ble High Court order, Company has paid decreed amount of ₹ 99.05 crore in the FY 2012-13 arising out of dispute with a contractor. Company's appeal against such decreed amount is still pending before the Hon'ble High Court and the Company considers it to be recoverable and as such not treated as expense.
- Company has implemented "Guidance Note on Accounting for Oil & Gas Producing Activities (Revised 2013)" issued by the Institute of Chartered Accountants of India (ICAI). However, the company continued to provide depreciation on other Production Facilities, being part of producing properties as per the rates prescribed under Schedule XIV to the Companies Act 1956, in preference to the D method based on Unit of Production as recommended by ICAI. Company's decision is based on the opinion from Expert Advisory Committee of ICAI issued on 11.05.2010 and also since the rate Schedule XIV to the Companies Act 1956 prescribes the minimum rates at which depreciation is to be provided. Impact of implementation of the Guidance Note is increase in Acquisition Cost-Li corresponding increase in Profit before tax by ₹ 0.32 crore, increase in abandonment liability by ₹ 86.15 crore with corresponding increase in cost of Producing well ₹ 80.21 crore, Capital Work in F (Development Cost-Well ₹ 0.94 crore) & Well write off ₹ 5 crore.
- Recoverability of dues of ₹ 94.47 crore as on 31.03.2014 from Suntera Nigeria 205 Ltd. in which the company is having 25% interest in equity along with Suntera Resources Limited (50%) and In Corporation Limited (25%) is dependent upon its ability to continue as a going concern with the support of its shareholding companies. This loan is however due for repayment on 31.12.2014 only. Accordingly no provision has been created in accounts as on 31.03.2014.

Place: Noida
Date: 27th May, 2014

For Oil India Ltd.

Mrs. Rupshikha S.
Director (Finance)

Regd. Office: Duliajan, Assam, Tel: +91 (0374) 280 0508. Corporate Office: OIL House, Plot Number 19, Sector 10, Gurgaon, Haryana



ऑयल इंडिया लिमिटेड
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Oil India Limited
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Conquering Newer Horizons

Pursuant to directive from Government of India vide MoP&NG letter no. 33011/16/2013-ONG-III dated 17.10.2013, the company has raised overseas funding for acquiring 10% participating interest in Rovuma 1 offshore block in Mozambique along with ONGC Videsh Ltd. The foreign currency borrowing at the close of year has been translated in accordance with AS-11 and consequently ₹ 238.96 crore has been recognized as exchange gain on foreign currency translation.

The Statutory auditors have drawn attention to the Note 4.5, 6 & 7 without qualifying their Annual Audit Report.

The Company has exercised the option under para 46A of the amended AS-11 relating to 'The Effects of Changes in Foreign Exchange Rates' to amortize the exchange difference on the long term foreign currency monetary items over their tenure. Consequently as on 31.03.2014 ₹ 31.83 crore has been carried forward debit balance in the 'Foreign Currency Monetary Item Translation Difference Account' and ₹ 1.61 crore has been amortised during the quarter.

The Company along with ONGC Videsh Limited has acquired on 07.01.2014 shares in Videocon Mozambique Rovuma 1 Limited holding interest in the Rovuma Area 1 Offshore Block in Mozambique in the ratio of 40:60 by acquiring 5120 shares of no par value fully paid and invested ₹ 6337.39 crore (USD 1007.69 million).

Final Dividend @ ₹ 0.50 per share of ₹ 10 each amounting to ₹ 30.06 crore excluding dividend distribution tax for the financial year 2013-14 has been recommended subject to approval of members in the AGM. This is in addition to Interim Dividend @ ₹ 21 per Equity Share of ₹ 10 amounting to ₹ 1262.39 crore already paid. The total of interim and final dividend for the year is ₹ 1292.45 crore.

The figures for the previous periods have been re-classified/re-grouped, wherever necessary, as per the format revised by SEBI.

The Audited result for the year ended 31.03.2014 is subject to review by the Comptroller and Auditor General of India u/s 619(4) of the Companies Act.

The figures of quarter ended 31.03.2014 are the balancing figures between the audited figures of the full financial year and published year to date figures up to the nine months ended 31.12.2013 of the financial year.

In terms of the decision of Government of India, the Company has shared under-recoveries of Oil Marketing Companies for the quarter and year ended on 31st March, 2014 by allowing them price discounts on Crude Oil and LPG based on rates of discount communicated by Petroleum Planning & Analysis cell. The impact of this on Net sales is as under:

Decrease	Standalone				Consolidated	
	Quarter Ended		Year Ended		Year Ended	
	31 st March, 2014	31 st Dec., 2013	31 st March, 2013	31 st March, 2014	31 st March, 2013	31 st March, 2013
net sales	2347.60	2173.48	1849.72	8736.84	7892.17	8736.84

STANDALONE & CONSOLIDATED SEGMENT WISE REVENUE, RESULTS AND CAPITAL EMPLOYED FOR THE QUARTER AND YEAR ENDED 31st MARCH, 2014 (₹ in crore)

I. PARTICULARS	Standalone				Consolidated	
	Quarter Ended		Year Ended		Year Ended	
	31 st March, 2014	31 st Dec, 2013	31 st March, 2013	31 st March, 2014	31 st March, 2013	31 st March, 2014
	Unaudited	Unaudited	Unaudited	Audited	Audited	Audited
Segment Revenue						
(a) Crude Oil	1414.22	2145.18	1979.95	7386.82	7933.74	7487.93
(b) Natural Gas	416.85	462.88	381.85	1710.71	1542.21	1712.61
(c) LPG	12.38	40.15	35.17	106.60	121.20	106.60
(d) Pipeline Transportation	79.39	71.78	69.17	329.24	319.63	329.24
(e) Others	626.74	334.43	378.85	1707.97	1561.24	1687.55
Total Revenue	2549.58	3054.42	2844.99	11241.34	11478.02	11323.93
Less: Inter Segment Revenue	0.00	0.00	0.00	0.00	0.00	0.00
Net Sales/ Income from Operations	2549.58	3054.42	2844.99	11241.34	11478.02	11323.93
Segment Results						
Profit Before Tax and Interest:						
(a) Crude Oil	253.56	916.40	743.41	2451.76	3232.60	2430.35
(b) Natural Gas	170.60	239.17	74.46	762.97	710.41	762.57
(c) LPG	1.58	28.02	24.88	62.34	80.16	62.34
(d) Pipeline Transportation	(8.07)	1.98	(2.70)	47.53	74.65	47.53
(e) Others	596.70	308.28	372.08	1599.92	1537.66	1579.50
Total	1014.37	1493.85	1212.13	4924.52	5635.48	4882.29
Less: Unallocated expenses	159.98	101.42	106.17	445.30	349.65	449.47
Profit Before Interest and Tax (PBIT)	854.39	1392.43	1105.96	4479.22	5285.83	4432.82
Less: Interest	34.53	33.04	2.00	68.78	2.60	70.78
Profit Before Tax	819.86	1359.39	1103.96	4410.44	5283.23	4362.04
Capital Employed (Segment assets - Segment liabilities)						
(a) Crude Oil	3273.22	3454.57	2889.27	3273.22	2889.27	3741.80
(b) Natural Gas	2543.70	2662.77	2364.49	2543.70	2364.49	2543.70
(c) LPG	4.60	42.20	34.23	4.60	34.23	4.60
(d) Transportation	289.06	306.43	267.94	289.06	267.94	289.06
(e) Unallocated						
Cash & cash equivalents	11543.68	11620.81	12132.93	11543.68	12132.93	11660.11
Others	3053.92	3528.00	1522.62	3053.92	1522.62	2242.51
Total Segment Capital Employed	20708.18	21614.78	19211.48	20708.18	19211.48	20481.78

RAJ VERMA



RISE OF THE MACHINES



Both MNCs and Indian companies have started investing in 'smart' factories that combine automation, new processes, industrial Internet and Big Data.

By GOUTAM DAS

At a factory in Chakan, an hour's drive from Pune in Maharashtra, General Electric (GE) is making a \$200 million gambit of bringing the latest in manufacturing to India. The 67-acre campus houses brick-red and white administrative blocks, a creche for children of staff members, and even a helipad. But the real action is taking place inside the 250,000-square-foot shop floor where a handful of workers are conducting trial runs on seven 'multipurpose machining centres' lined one after another, resembling a coach.

The computer-controlled machines, imported from Germany and Japan, make metallic parts. Steel, alloys and titanium are fed into the machines that churn out components with an accuracy of 0.005 millimetres for use in power equipment, oil and gas drilling, and the aviation industry. Behind these machines, a few workers are busy trying out assembling wind turbines. Right in the middle of the shop floor sits a three-dimensional (3D) printer, which is producing scaled down versions of actual parts. Eventually, it would print out components that go into jets, engines, and turbines.

The factory will begin production later this year. When it does, it will be one of India's smartest factories that bring together automation, the Industrial Internet where machines communicate with each other, and Big Data – large data sets derived from sensors installed in machines.

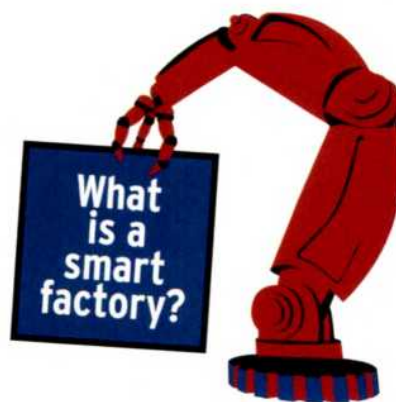
Manufacturing is no longer just about hardware. "Smart factories are

at the intersection of hardware and software," says Jeffrey W. Connelly, Vice President of GE's Global Supply Chain, when *Business Today* meets him in Pune where he had come to attend a meeting with suppliers. "It is exactly what 3D printing is, monitoring and diagnostics is, sensing technology is. We call it 'predictivity'. In the world of manufacturing, it is having the ability through data to know things before they happen," he says.

So, all the machines at the Chakan plant are connected to a central server. Data from the trials are being used to analyse cycle times. The data will also be used to improve the performance of machine tools and cut down process time as well as defects.

Like GE, many other multinational companies in India are investing in advanced manufacturing. German auto giant Volkswagen's India plant, also in Pune, has 114 robots and many machines there are interconnected. "Our framer or laser welding robots are connected with their manufacturers back in Europe. Whenever there is any issue with the robots, the engineers back in the parent company can trace the defects faced, find the cause and resolve it remotely," says Andreas Lauenroth, Executive Director (Technical) at Volkswagen India, via email. The carmaker is procuring more robots, increasing automation of other processes and exploring the possibilities of using 3D printing in India.

About an hour's drive from New Delhi is the town of Jhajjar in Haryana where Japanese consumer durables maker Panasonic is investing \$200 million in a 307,000-square-metre manufactur-



- **MORE AUTOMATION AND ROBOTICS:** Makes factories more productive and flexible
- **INDUSTRIAL INTERNET:** Machines communicate with each other, reducing human error
- **BIG DATA:** Large data sets from sensors installed in machines are analysed to predict failures and prescribe solutions
- **3D PRINTERS:** Prints out a three-dimensional object; making prototypes becomes much easier



Factory of the future: GE's new multimodal plant at Chakan, near Pune

ing facility it calls 'Technopark'. The factory started production last year and has a capacity to make one million air conditioners and 500,000 washing machines.

The production as well as the testing process at the plant is mostly automated. Take washing machines, for instance. The washing machines are not tested with water to check leakage. Instead, a machine creates air pressure inside the washing machine tub. The air pressure equipment and the conveyor belt carrying the tubs both have sensors and "talk to each other". If the pressure drops after a few seconds, it indicates a leakage and the conveyor belt stops automatically.

Why are multinational companies investing in advanced manufacturing in India?

For GE, investment in automation is mostly aimed at making its new plant "multi-modal". There are very few

multi-modal factories in the world, and this is GE's big experiment to make products for different industries on the same shop floor using common machines such as the multipurpose machining centre. The Chakan factory has centres of excellence like fabrication and high-end welding as opposed to product lines. Different products pass through these centres, whereas earlier separate factories would have been required to make such products. This is GE's only multi-modal factory in India, though it has similar – but smaller – facilities in some other countries including Vietnam, China and Hungary.

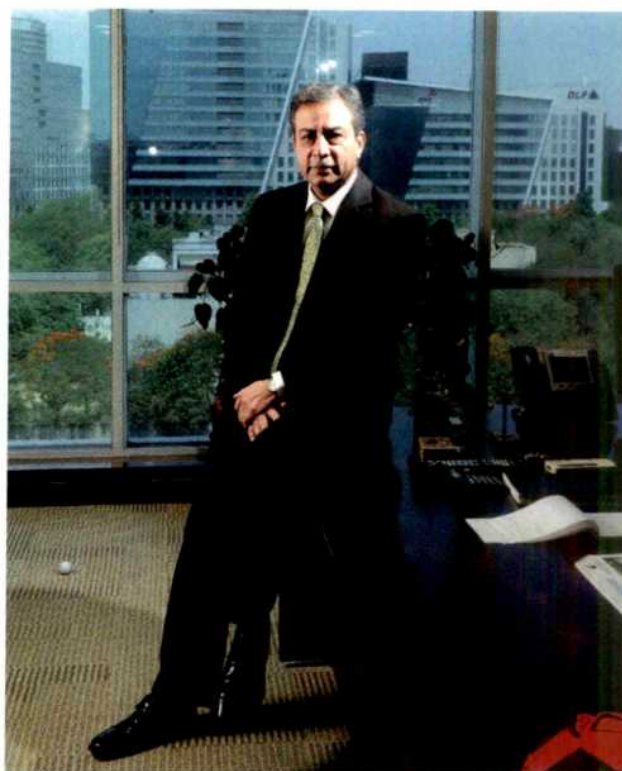
A multi-modal factory may appear similar to 'flexible manufacturing' practiced by some automobile companies which can switch between diesel and petrol car variants, but the work GE is doing is much more complex. "We are talking of multiple products under the same roof, which is



Video interview with GE's Banmali Agrawala at www.business today.in/ge-agrawala



The maximum height of the factory is 22.7 meters, or as high as an eight-storey building



SHEKHAR GHOSH

BANMALI AGRAWALA, President & CEO, GE South Asia

"The objective in the Chakan plant is to get scale through volumes which are not necessarily large from one product"



different from the ability to scale up or scale down. If you are passing aviation, wind turbine, and power components under the same centre of excellence, that is a lot more radically different than switching from diesel to petrol engine in car making," says Banmali Agrawala, President and CEO for South Asia at GE.

GE's investment in Indian manufacturing has to be understood from a broader perspective. Governments across the world want to create more jobs and the manufacturing sector is a powerful platform. They are forcing companies to manufacture locally. This implies that, in the future, manufacturing will no longer be restricted to certain countries like China. "It is a far more decentralised, distributed effort. That is a new phenomenon. As a consequence of this shift in the global economy, companies such as GE have to adopt a different approach," says Agrawala.

But decentralisation of manufacturing has one problem – it poses a challenge to the concept of economies of scale. Investment in multi-modal manufacturing comes in handy here. "The objective in the Chakan plant is to get scale in a facility through volumes which are not necessarily large from one product," says Agrawala. "We, at GE, have an advantage. We are not a one-product company."

Dutch consumer electronics giant Philips has a similar problem when it comes to the manufacturing of medical equipment. Its plant in Chakan, near GE's plant, has a capacity of 1,500 imaging systems a year. It makes equipment for cath labs and non-invasive surgery as well as diagnostic X-ray machines but they are all low-volume, high-value equipment. To keep its factory humming to capacity, the company kept the design flexible. So, the plant doesn't have a dedicated production line for one type

**MANISH SHARMA, MD,
PANASONIC INDIA**

"The factory is highly automated for three reasons. One is ease of workers. Second is quality of products. And third is scalability in the future"

of equipment and can adapt to the configuration requirements of different clients. It exports to China, Columbia, Peru, Chile, Argentina, France, Austria, Italy, and Poland. "When you are looking at a low-volume business like this, it has to be multi-modality," says Subhash Vashisht, Director of Imaging Systems Operations at Philips Healthcare. "If you have just one [production] line and it is not churning out business, your factory will not be viable."

Multi-modal and flexible manufacturing have huge implications on employee costs as well. One can use a common set of employees for different product lines, resulting in better utilisation of human resources. "In surgical equipment and diagnostics, we train people both ways," says Vashisht. Modern processes such as multi-modal can, therefore, impact direct jobs.

The Job Killer?

Smart factories employ very few people, and many wonder if manufacturing can indeed create the massive number of jobs required to absorb the growing workforce in developing economies such as India. Rajan Anandan, Managing



SHEKHAR GHOSH/www.indiatodayimages.com

Smart plan: Panasonic's Jhajjar plant, where it makes ACs and washing machines. The production and testing process is mostly automated

Director at Google India, is one sceptic. At a recent BT event, he said that in two decades, robots would do all work that industrial workers do today. "Most manufacturing will not require people in the next 25 years. We should be thoughtful about where we are headed. We have to be careful because manufacturing will employ robots and 3D printing," he said.

Already, manufacturers are either employing less people than before or are producing more with the same number of people. Five years ago, a factory the size of Panasonic's at Jhajjar would have required 1,500 to 2,000 people. "But now during the peak season, we are running it with 700 people," says a factory manager at Panasonic. Bajaj Auto's output per employee has nearly doubled since



Video interview with Panasonic's Manish Sharma at www.businesstoday.in/panasonic-sharma

2008. Mahindra & Mahindra's vehicle and tractor output per permanent employee has also doubled since 2008.

While multinational companies are at the forefront of this technological shift on the shop floor, Indian companies are slowly catching up. Although local companies are not tinkering with their old plants, their new factories are increasingly automated. JK Paper is one such company. It commissioned its second plant in Odisha's Rayagada in 2013 with an investment of ₹1,775 crore. The company installed modern digesters – used to turn wood chips into pulp – as well as paper machines. A.S. Mehta, President of JK Paper, says the company earlier had four digesters with a capacity of 300 tonnes of pulp a day, but now only one new digester can crank out 630 tonnes daily. The new paper machine can make 165,000 tonnes a year while

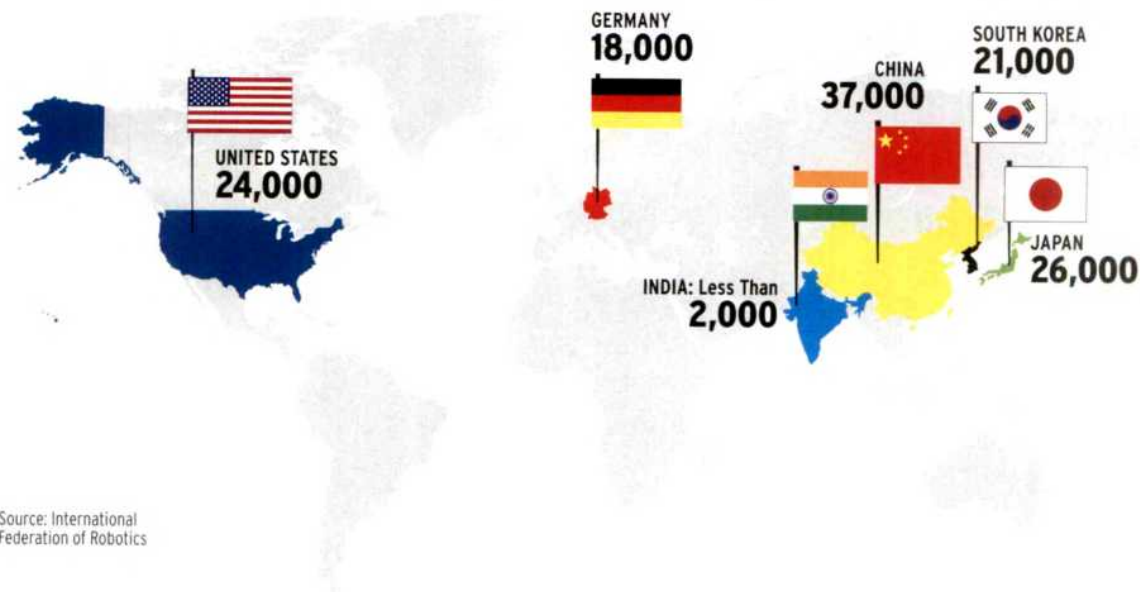
has been "aligned to the world's best", he says.

Trade unionism and labour strife are other important reasons pushing manufacturers towards automation. While labour in India will be cheaper compared to the capital investment required for automation in a paper or tyre factory, companies may not want to deal with the stress that comes along with endless wage negotiations. "Sometimes, we don't calculate the ancillary cost of people. You also forget to calculate the future incidents of labour liability," says JK Paper's Mehta. "While today you may pay ₹7,000 a month to a worker, there will be wage revisions in a few years' time. Then there are union issues and absenteeism. The stress cost of management is much more than what you invest."

Smart factories are here to stay, and grow. Whether

A LONG WAY TO GO

Global sales of industrial robots rose 12% in 2013 to about 179,000, with India lagging far behind



four older machines at the same plant have a combined capacity of 125,000 tonnes. JK Paper has also automated its warehousing system using robots. All this automation means that the new factory employs just 400 people compared with 1,400 people at the older plant in Rayagada.

Besides the improvement in productivity, another reason that is prompting Indian companies – especially exporters – to opt for automation is the high quality and precision that modern machines offer. Satish Sharma, President of Asia Pacific, Middle East and North America at Apollo Tyres, says productivity at its plant near Chennai is three times higher compared with the company's Vadodara factory thanks to large-scale automation. The Chennai factory, which exports to the European market,

robots will eat up jobs that India desperately needs is an inconclusive debate. But the rise of the machines need not be scary. If automation makes products like air conditioners cheaper, it would mean an increase in demand and sales. That could potentially add more retail jobs. Some believe smart factories will create many more jobs in the logistics chain, if not within the factory. "If we can enhance productivity through new technology, that means we can do five [products] instead of three," says GE's Connelly. "That means we need more designers, and more sales, finance, packaging and transportation people. The more productive we can be, the better it will be for everyone." ♦

@Goutam20

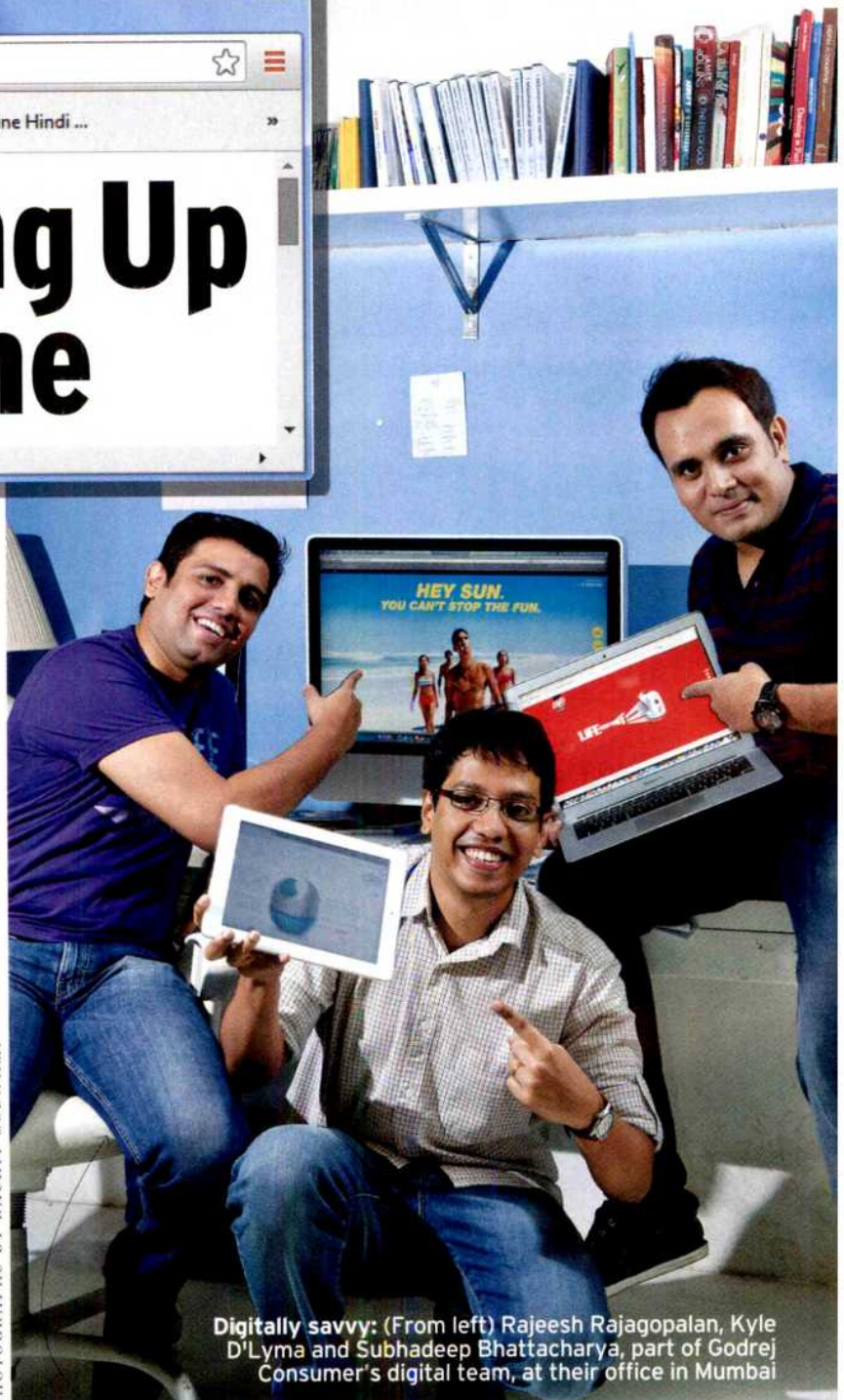


Until recently FMCG companies were considered slow in adopting digital media for advertising, but not any longer.

By AJITA SHASHIDHAR

Godrej Consumer Products Ltd (GCPL) recently hired three 20-somethings for its core brand marketing team as digital managers. Rajeesh Rajagopalan, Kyle D'Lyra and Subhadeep Bhattacharya have post-graduate degrees and Google's specialist certification in communication, and previously worked with digital marketing agencies. The trio's mandate is to lead the consumer-goods maker's digital advertising campaigns. "We think about the digital plan at the drawing board stage of a brand campaign. Digital is no longer an after-thought," says Rajagopalan. But why recruit young-

PHOTOGRAPHS BY RACHIT GOSWAMI



Digitally savvy: (From left) Rajeesh Rajagopalan, Kyle D'Lyra and Subhadeep Bhattacharya, part of Godrej Consumer's digital team, at their office in Mumbai

■ RAJEESH RAJAGOPALAN

"We think about the digital plan at the drawing board stage of a campaign. Digital is no longer an after-thought"

sters instead of more experienced professionals? Sunil Kataria, Chief Operating Officer for sales, marketing and South Asia at GCPL, explains the reason. "Most of us in the company are not digital natives but digital immigrants. So, we have hired young people to be part of our brand marketing teams and drive digital efforts across our brands," he says.

Hiring youngsters for digital campaigns is part of GCPL's 'Digital Fitness' programme that it kicked off about 18 months ago to intensify its focus on various digital media platforms. Although digital campaigns make up a small part of the fast-moving consumer goods (FMCG) company's total marketing and advertising spends – it was just four per cent in 2013 – it is growing rapidly compared to spending on print and television. In 2014, the company is stepping up its digital spends by 40 per cent and plans to ramp it up to 70 per cent in coming years, says Kataria.

Overall, the share of digital media in the Indian advertisement expenditure is likely to rise to 7.9 per cent in 2014 from 6.9 per cent last year, according to GroupM, the media buying arm of global advertising network WPP.

GCPL is not the only consumer goods maker to focus on digital media. Many other consumer goods makers are also fast realising they can no longer ignore this new medium. According to Ravi Rao, Leader (South Asia) at media buying and planning agency Mindshare, FMCG companies have increased their digital spends between 30 per cent and 50 per cent in the past one year.

This is in sharp contrast to three to four years ago when only companies from the financial services, hospitality and auto were big spenders on digital media. Consumer goods companies, which unlike companies in other categories rely heavily on rural and semi-urban areas to sell their products, earlier

preferred traditional media because of its wider reach and comparatively lower cost to sell everything from personal care products such as soaps and shampoos to food items.

The shift in the marketing strategies of FMCG companies has been prompted by a dramatic change in consumers' media consumption habits thanks to growing use of mobile phones, especially smartphones, and the Internet. "Consumers are consuming content on varied platforms and on various devices. Therefore, a one-size-fits-all TV campaign no longer works," says Tarun Arora, Country Head of Danone Narang Beverages, a joint venture between French foods company Danone and Mumbai's Narang Group.

Jayant Singh, Executive Vice

President for Marketing at GlaxoSmithKline Consumer Healthcare, concurs with Arora. He says the company is looking to double its spending on digital advertising this year. "We are going where the consumer is and wish to engage with them through innovative digital programmes. We are reaching out to them as an untapped, core potential audience."

Changing Mindset

Until a few years ago most companies looked at online as yet another platform to air their TV commercials. This is not the case any longer. FMCG companies are looking at digital media as a separate platform to engage with their target audience. They seek feedback on their TV campaigns,

COMPANY: Mondelez
PRODUCTS: Oreo cookies

DIGITAL PLATFORMS USED: Facebook and Twitter

CAMPAIGN: Confectionery giant Mondelez rolled out a digital campaign for a new variant of its best-selling Oreo cookies in May this year. The campaign, on social networking site Facebook and microblogging site Twitter, aimed at communicating how the Oreo Cookie and the new variant, Orange Creme, blend beautifully together. The campaign reinforced this connection between them and narrated tales of them as #OreoBesties, while engaging Oreo's fan base with multiple activities.

The first leg of the campaign was a selfie contest. Oreo's #BestieSelfie ran for three days where users were asked to share their and their best friends' wacky self-portrait photographs. The second leg was a #ShoutOut between the two – #OreoBesties Cookie and Orange Creme – where one would shout out something and fans had to guess what the other would reply. In the third part of the campaign, people were asked to complete the sentence #YouAreBestieswhen.

IMPACT: The campaign reached more than 600,000 people on Facebook and generated close to 300,000 impressions on Twitter. (Impressions are the number of times a post or tweet is displayed).





"In order to make the [Revlon] brand look contemporary, digital media became imperative as most young women are digital natives"

TRIPTI LOCHAN,
CEO, VML Qais

invite suggestions to name their upcoming brands and even take up social issues.

Zafar Rais, CEO of digital marketing agency Mindshift Interactive, says one of the earliest campaigns that encouraged FMCG brands to take digital seriously was almost four years ago, when Nestle synced its print ad for Nescafe coffee with social media and asked people

their feedback. "That changed the mindset of FMCG brands," he says.

Perhaps the most successful digital campaign in the country by an FMCG company has been run by Hindustan Unilever (HUL). The consumer goods giant last year launched a free mobile radio entertainment channel called Kan Khajura Tesan, which can be loosely translated as Centipede Station, in

Bihar and Jharkhand. To access the content, a mobile phone user gives a 'missed call' – the call here gets disconnected automatically after two rings – on a given number. The user is then called back and gets to listen to songs, jokes and, of course, HUL advertisements. The idea behind the campaign was to reach out to consumers who do not have access to TV, radio or the print medium but have a mobile phone. Over the past seven months the radio station has reached out to more than nine million subscribers and HUL ads have been heard 85 million times, the company says. HUL now plans to roll out the channel in other regions.

When ITC last year launched the Vivel skin nourishing range of soaps, it held a contest to search for ingredients on Facebook. "The emergence of newer interactive digital platforms and online social networks has led to a paradigm shift in brand communications. We have been strategically investing in all aspects of digital," says Nilanjan Mukherjee, Head of Marketing for ITC's Personal Care Products Business. Similarly, Danone Narang chose the brand name of its vitamin-enriched flavoured water after interacting with consumers on social

COMPANY: Revlon India

PRODUCTS: Revlon ColorStay Whipped Creme Makeup

DIGITAL PLATFORMS USED: Revlon India's Facebook page

CAMPAIGN: When Revlon India launched the Revlon ColorStay Whipped Creme Makeup foundation, engaging customers in an innovative way was a challenge. This is because foundation as a product isn't as exciting as lip colours or nail enamels. Revlon went out to understand what women wanted from their beauty products, specifically foundation. It kicked off a digital campaign with a series of polls conducted on its Facebook Page over two weeks.



The survey revealed some interesting findings. For instance, it found that about 80 per cent of those polled used their fingers to apply foundation. The company then launched the product through its Facebook page and also created seven USP images – each of which addressed a finding from the poll.

IMPACT: Revlon India received more than 75,000 responses to its poll questions. Its Facebook fan base grew by 33,746.



Video interview with Tripti Lochan of VML Qais at
www.businesstoday.in/vmlqais-lochan

media, says Arora. "We talked about our brand on various social media platforms and asked consumers to give their feedback. We got over 50,000 responses and that's how the name 'Blue' came about," he says.

Consumer goods companies are not just using digital media to increase awareness about their brands among consumers. They are also using it to change brand perception. Cosmetics maker Modi Revlon is one such company. It hired ad firm VML Qais to launch a digital initiative about a year ago. Tripti Lochan, CEO, VML Qais, says Revlon's target audience is younger women, but the common perception among them was that the brand related to the older generation. "In order to make the brand look contemporary, digital media became imperative as most young women are digital natives," says Lochan. Revlon India now has close to one million fans on

₹43,065

CRORE

Estimated Indian advertising expenditure in 2014, up from

₹38,598

CRORE in 2013

₹3,402

CRORE

Estimated digital advertising expenditure in 2014, up from

₹2,520

CRORE in 2013

Source: GroupM

social networking site Facebook alone. Dimsy Mirchandani, Revlon's Marketing Manager, says some lipstick and other make-up variants that the company launched after their digital campaign boosted sales by nearly 20 per cent.

Despite the recent shift in advertising strategies by FMCG companies, digital is not yet eating into their traditional media spends as yet. According to Arora of Danone Narang, one can't write off TV and print, unless there is a dramatic change in consumer behaviour. "Digital is beginning to play a huge role in awareness building, engagement with consumers and creating intent to buy a product," he says. "But it has still not started to replace traditional media." ♦

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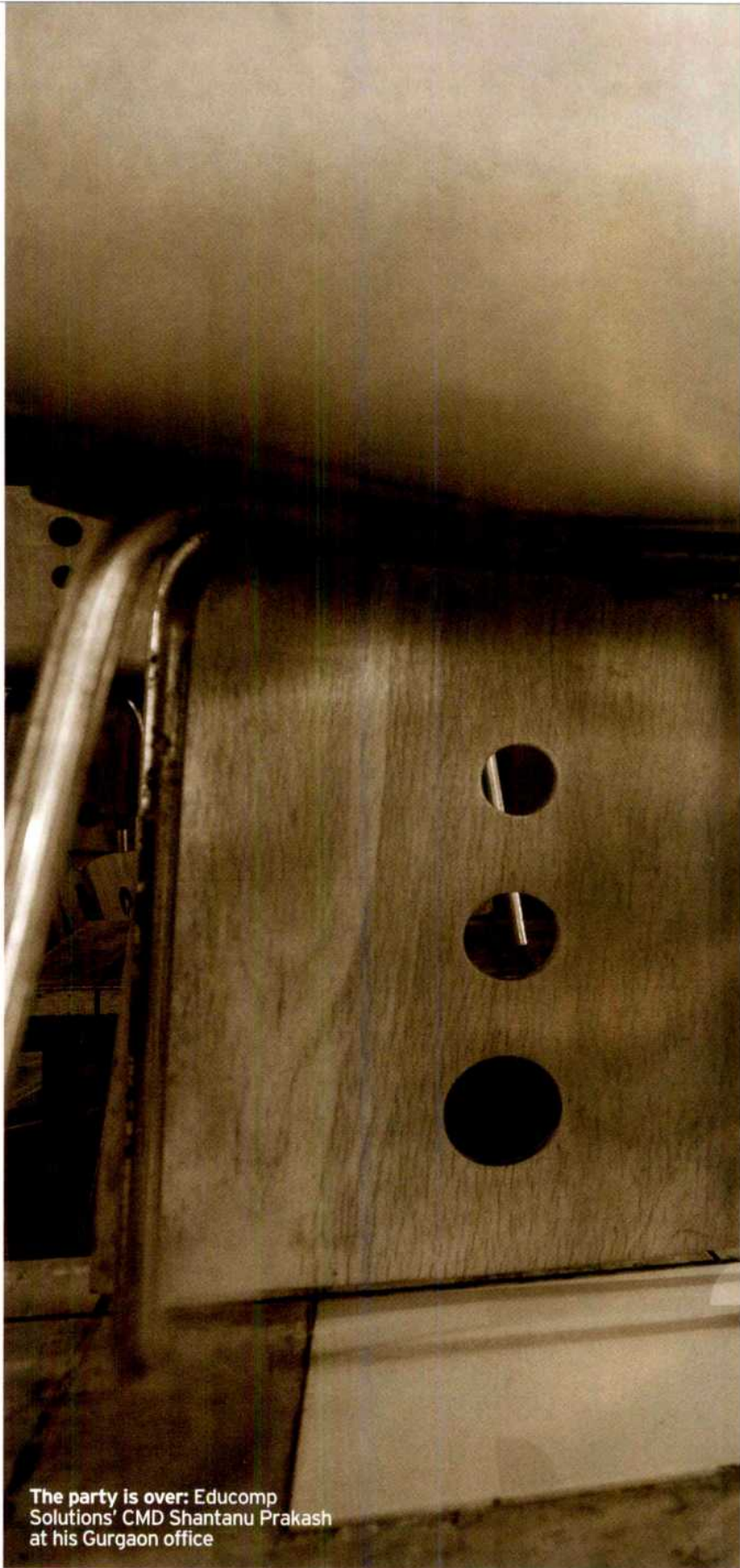
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One of the poster boys of digital education, Educomp struggles to stay relevant after initial success.

By MANU KAUSHIK

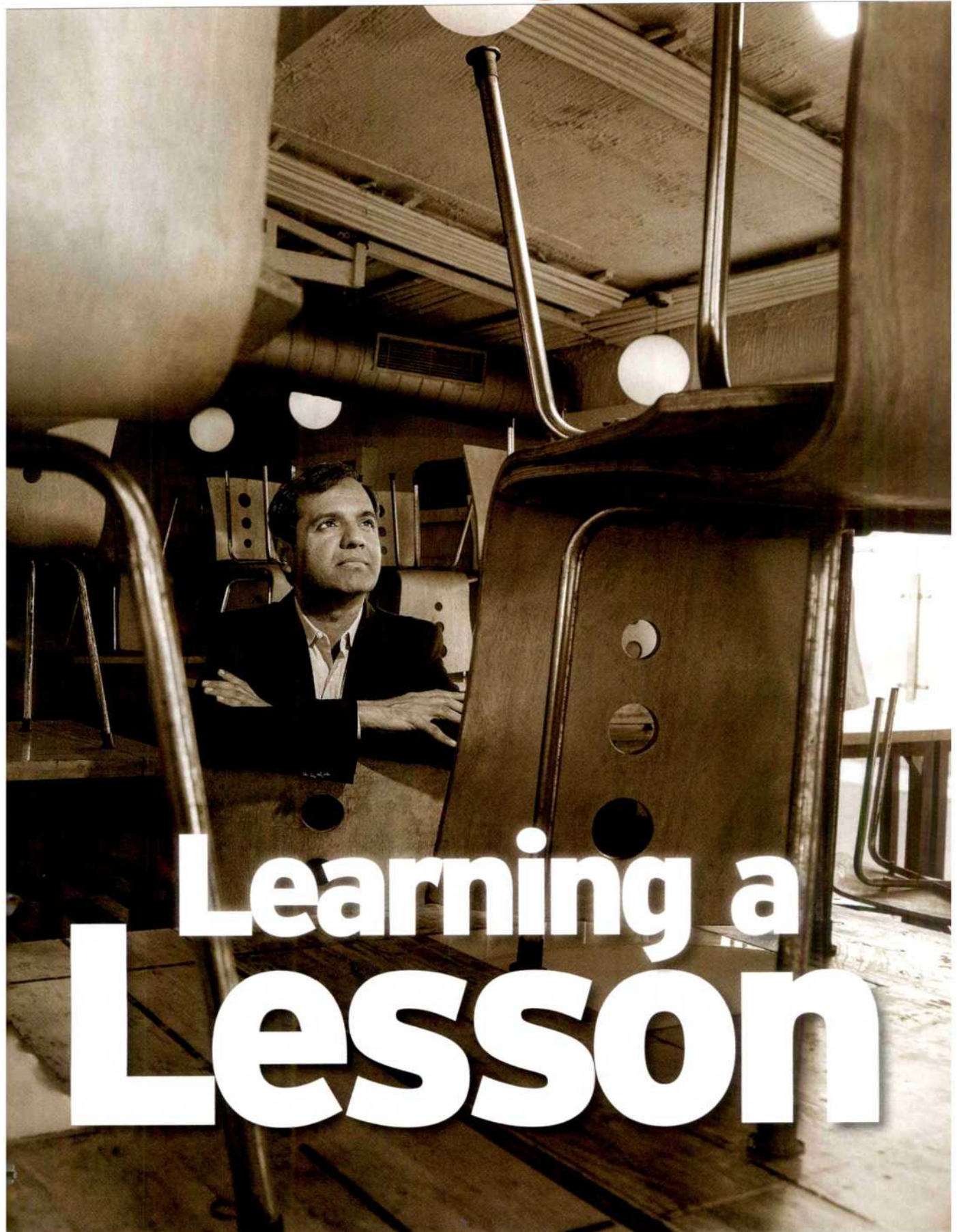
In December 2010, when Bangalore-based Sujana Convent School decided to enrol for Educomp Solutions' Smartclass in its attempt to modernise classroom teaching, the school was not aware of what lay in store. Launched in 2003, Smartclass was an innovative e-learning product that promised to revolutionise education. It was aimed at replacing conventional teaching techniques – blackboard and chalk – with digital tools that would include videos, three-dimensional images and animation. The focus was on enhancing the entire classroom learning experience. But within a few months of hiring Educomp's services, the school began to face problems with the software and hardware (projectors, screens, etc.) installed in three of its classrooms. As the glitches became more frequent, the school management complained to the company but it appeared to turn a deaf ear. "We wrote several emails and letters but did not get a satisfactory response," says Divya Lokesh, the school's founder-principal. After putting up with the problems for more than a year, the school decided to take legal action against Educomp in August



The party is over: Educomp Solutions' CMD Shantanu Prakash at his Gurgaon office



Video interview of Shantanu Prakash at
www.businessstoday.in/educomp-prakash



Learning a Lesson

VIVAN MEHRA/www.indiatodayimages.com

July 6 2014 BUSINESS TODAY 61

last year. "When we went to the consumer court, we thought we would be the only school with such issues. But I was surprised to see that there were other schools like us," she says.

Sujana is one of the 25-odd private schools in Karnataka that have filed cases against Educomp for poor service. "It was written in the contract that all issues would be sorted out in 48 hours and the malfunctioning hardware would be replaced

neered the concept of multimedia learning in the classroom by initially supplying computers to schools, and subsequently installing interactive whiteboards that display curriculum-related content. In a way, Educomp's struggle epitomises some of the difficulties of bringing technology into the field of education – something the new government is very keen on.

Educomp began in 1994. Before launching Smartclass, Educomp pro-

timedia that could be taught through CRT (cathode ray tube) monitors. "Indian classrooms are dysfunctional because they are overcrowded, the teachers are relatively underpaid and the pressure of the curriculum is too much. All these things combined create a situation for classrooms to become ineffective. The catalyst we brought to the table was Smartclass, which made teachers into superteachers," says Prakash, an alumnus of IIM Ahmedabad.

Educomp's flagship product – Smartclass – initially became an instant hit with schools and parents. Indeed, between 2004/05 and 2011/12, Smartclass's customer base grew at a scorching pace – from 26 to 9,575 schools. "People were broadly aware of the benefits of technology in the education sector but nobody made a serious attempt to change things. Educomp did a pathbreaking job of bringing technology to the classrooms. For the first time, a company was able to sell a product with a business model under which schools were able to charge for the services," says Anand Sudarshan,

Founder and Director of education consultancy firm Sylvant Advisors. Agrees Nilambu Syam, an investment banker who has been closely tracking the education sector for over a decade. "Educomp was the first company to see a gap in the market and managed to crack the model with its innovative product."

So, what went wrong? Educomp didn't anticipate that its initial success would prompt others to replicate its product. Today, Educomp is fighting a price battle with over 10 service providers, including big names such as Tata Group, HCL Infosystems and NIIT. "Digital learning has become a



New beginnings: A Smartclass in progress at The Millennium School, Noida

in a week's time but that never happened," says D. Shashi Kumar, secretary of Karnataka State Private School Managements Federation. Educomp, however, maintains that its Smartclass is the preferred digital classroom solution of over 600 schools in Bangalore. And that most of these schools are happy with the product and service, and have been adding classrooms at regular intervals.

Still, the experience of some private schools in Karnataka with Educomp is a microcosm of the larger problem faced by the company over the past few years. Educomp pio-

Some schools faced problems with the software and hardware installed in classrooms. The schools complained but Educomp did not seem to hear them

moter Shantanu Prakash and his team had been involved in teacher training and setting up computer labs in private schools. Just over a decade ago, Prakash hit on the idea of converting school curriculum into mul-

commodity business with almost all the players providing a similar type of service. I don't see any difference between what Educomp is selling and others," says Narayanan Ramaswamy, Head of Education at KPMG. In a competitive market, companies with higher priced products stand to lose market share. The numbers suggest Educomp is seeing price erosion in its core business. Between April 2012 and March 2013, for instance, the company added 2,171 new schools for Smartclass, but revenues from the product dropped 52 per cent during the same period.

Ramaswamy also says companies like Educomp are not innovative with their products any more. "Nobody is offering a learner-centric product. They procure hardware from somewhere, produce content and give service contracts to some third-party vendors. Nothing stops schools from procuring these things on their own," he says. A December 2011 report by brokerage Anand Rathi had spotted this trend early. "A recent trend is for schools to invest in hardware on their own and to offer extra perks, both monetary as well as non-monetary, to teachers in order to create digital content in-house," it said.

Mounting Problems

Educomp's problems began early in 2006 and intensified when it decided to try its hands in every possible venture related to education. At first, it set up a pre-school in Delhi; subsequently, it opened its own brand of K-12 schools and also forged tie-ups with other companies in vocational training. Investing in new ventures, especially K-12 schools, turned out to be a mistake as the company fell into a debt trap. Educomp was already spending big money on e-learning solutions and also buying land for the schools. It currently runs 51 (K-12) schools with around 48 more in the pipeline. Short of funds, its after-sales service record suffered, leading to the spate of cases against it.

Meanwhile, most leading broker-

Why Educomp Is Struggling

The product was sold without keeping the end consumer (students) in mind

The runaway success of the flagship product Smartclass prompted other companies to copy it

Rising competition and price-conscious schools affected the pricing of its product

Diversification into several other businesses did not help either

Corporate governance issues spooked investors

ages have stopped tracking Educomp in the past few years, especially after it got mired in corporate governance issues. What concerned analysts most was the company's approach to tackling the mounting debt on its books. EduSmart was created in 2009 to take over Educomp's new five-year school contracts. The new company would pledge the receivables from the contracts with banks to pick up substantial capital, which would then be passed on to Educomp. It helped Educomp get the entire payment for its contracts with schools at one go, which would normally be staggered over five years. This helped the company shore up revenues and profits for some years. The practice though has been abandoned by Educomp now.

"All the hype around companies

like Educomp has completely disappeared," says Sudarshan, referring to its initial public offering (IPO) in 2006. Educomp's IPO was oversubscribed 34 times and was one of the best performing IPOs of 2006. The stock is now trading at ₹28, down 75 per cent from its IPO price.

Educomp's competitors are facing similar challenges. Many companies that promised to transform the education sector are today struggling to grow. Take the case of NIIT, the Delhi-based education company. It sells nGuru, a product akin to Smartclass. In the third quarter (October to December) of 2013/14 the company's revenues from school learning solutions fell 28.7 per cent compared with the year ago period.

Educomp still continues to be a market leader but the company has lost its way, say experts. Prakash claims that Educomp has 70 per cent market share in the digital learning space. It currently has 100,000 Smartclass products installed and the potential market is 2.5 million, he says. Most of its subsequent innovations (in Smartclass) went into making incremental changes. However, the market is looking for something else, says Sudarshan. "Education is a consumer business. Companies don't really understand the needs of students as they just want to add more number of schools," he says.

Once a poster boy of the education sector, Educomp is currently struggling to keep its books in shape. In the past four quarters starting March 2013, the company has been showing a steady decline in revenues and losses are increasing. In the quarter ending December 2013, Educomp posted revenues of ₹155.3 crore and a net loss of ₹87.6 crore.

Educomp will have to learn its lessons, says Sudarshan. "In the education business, you don't become oversized in a short time. If it has to change, it has to undergo fundamental shifts, which will be painful." ♦

@manukaushik

The energiser: Rajiv Kaul has focused on infusing technology and better management processes into CMS



THE CASH CHANGER

THE INSIDE ACCOUNT OF HOW CMS INFO SYSTEMS'S CEO TURNED AROUND AND GREW THE IT & OUTSOURCED BUSINESS SERVICES PROVIDER. By SUPROTIP GHOSH

In 1976, Ramesh D. Grover and two friends saw an opportunity. It was the height of business xenophobia in Delhi with multinational companies in the cross hairs of then industries minister George Fernandes's sights. With International Business Machines, better known as IBM, set to exit India over new foreign exchange rules, the techies eyed maintaining IBM machines the company was leaving behind in India.

Grover decided to call their venture Computer Maintenance Services or CMS – almost similar to its state-owned rival Computer Maintenance Corporation, which won most of IBM's maintenance work channelled its way because most of IBM's customers were government agencies or companies.

Technology matured and the need for automation among customers grew. Grover-led CMS forayed into new areas, delivering technology solutions. (Computer Maintenance Corporation, renamed CMC, is now part of the Tata group.) CMS expanded from PCs for end-users to business software implementation, from local area networks to information technology consulting, from cash management to traffic signals.

Businesses endure, but men age. Three decades into setting up CMS, the Grover family decided to take a look at all the businesses the company was into to understand

their true worth, said Vishal Grover, son of Founder Ramesh Grover. "We had 17 business units and the idea was to separate the strong from the weak, ensure survival of the fittest and have the leaders step up to the top in the marketplace," Grover wrote in an email from San Francisco where he's based.

After exploring exit options for more than a year, early in 2009 private equity firm Blackstone Group carved out a set of operations from the CMS Group of companies to create CMS Info Systems. The intent was simple: how to get into and grow the cash management business. It was not that CMS didn't know the business but just that the drive was missing. As president and Chief Financial Officer Pankaj Khandelwal says, the company was privately-run with a decades-old culture. That needed to change.

The centre point of CMS's business today is other people's risk. For an economy its size, India deals extensively in cash and cash is at risk from multiple fronts. There are possibilities of heists and robberies, and more mundane issues of counterfeit currency, bottlenecks in delivering cash and faulty ATMs. The cycle of cash starts from the central bank's mints and its vaults and moves through bank currency chests and branches, ATMs, post offices, businesses big to tiny, and individuals, with innumerable stops in between.

Achieving scale in such a business was tricky. But,

PHOTOGRAPHS BY NISHIKANT GAMBIRE



The leadership team: (From left) Manjunath Rao, Anush Raghavan, Anup Neogi, Rajiv Kaul, Alex Augustine, Pankaj Khandelwal, and Venkatesh R. at the CMS office in Goregaon, Mumbai

today, CMS has a market share of some 52 per cent of the fast-growing market for cash management services in India, more than doubling from 25 per cent in 2009. It feeds ATM machines, delivers and picks up cash from retail and other outlets, moves cash between currency chests and bank branches, runs dedicated cash vans, processes and sorts cash, and offers cashiering services.

Revenues have grown nearly three-fold to ₹1,500 crore today from Rs ₹550 crore in 2008/09. Khandelwal will not give numbers but says the company is more profitable now than its former owner. Its ATM and cash dispenser business has expanded at a 25 per cent compound annual growth rate (CAGR), while its retail business has clipped at 15 to 17 CAGR. From 2009, when it used to employ under 9,000 people, CMS now employs over 13,000.

The man responsible for this acceleration is Rajiv Kaul, best known in Indian business circles as the energetic head of Microsoft in India between 2001 and 2005. Kaul partnered Blackstone after a two-year stint as a Partner with Actis LLP, another private equity and buyout fund. Blackstone was eyeing CMS for a while and Kaul was looking for a challenge. "My career goal was not just to do something simple," he says. This was a meeting of ideas.

Kaul focused on infusing technology and better management processes into the company, and build a team with diverse experience. He put people like Anush

Raghavan, the company's young head of risk on fast track career paths, and poached leaders like Anup Neogi, now president and Chief Operating Officer, from multinational competitors such as Brinks.

Customer validation comes from Loney Antony, who has been dealing with CMS since 2008. As Co-founder and Managing Director, Prizm Payment Services, which manages 24,000 of India's total base of more than 150,000 ATMs, Antony says he has seen a clear change in the way CMS does business. "Earlier, the approach was of a responsive organisation; based on relationships," says Antony. "Today, it is a much broader professional organisation." What this means is empowerment and professionalism among the employees and the service at CMS. For Antony, that means less downtime and more efficiency.

Manjunath Rao, who came in from ATM company NCR in Singapore to head sales at CMS, says his decision to

shift was influenced by Kaul's approach to the business. Rao, who was at one point a client of CMS, says that the critical point in CMS's success is precisely in focusing on cash management. More than one-third of the cost running an ATM is that of cash management. This includes ensuring cash is available and that it is dispensed properly. That's not as easy as it sounds. "We always thought the cash business is a risky and murky business. When I came here, it was all slightly different. They talked about

**"We worked
towards bringing in
a blend while hiring,
to be in tune with the
emotional state of
the organisation"**

ALEX AUGUSTINE/HR Head

CMS IN NUMBERS

Revenues

₹550 cr
2008/09

₹1,500 cr
2013/14
(estimated)

Headcount



9,000
2009



13,000
2014

COMPLEXITY OF OPERATIONS

- Number of service transactions a day: 80,000. In 2009, this would have been 20,000 a day
- ATM service calls attended remotely 95% in 2013/14, dramatically up from 7% in 2010/11

technology," says Rao, who Kaul credits along with Khandelwal for winning an 8,000 ATM order from State Bank of India, the country's largest lender, last year.

Today, CMS manages over 51,000 ATMs. In India, per transaction size – at ₹3,000 each – at ATMs are relatively small compared to other countries and the quality of notes is a problem. The load on a company tasked with keeping ATMs up and running can be enormous. Soiled notes, for instance, are the cause for downtime at one of three ATMs that stop working here. CMS gets on an average 15,000 service calls a day.

Running such operations with 13,000 people can be a nightmare on the human resources (HR) front. Alex Augustine, Head of HR, says that when he joined the company, it had 'legacy' issues, leftovers from the earlier management. Simple things such as formal letters and paychecks were being delayed. A large number of general managers had been in the company for between 10 and 12 years. And to top it all, the staff was unsure of how the new owners would treat them. CMS management still has the odd run-in with trade unions but new systems and processes not just took care of the irritants and boosted productivity but also had people buying into new opportunities.

"The charm in this company is growth," says Neogi, who runs operations for CMS. He points to the way information technology has been harnessed to manage its more than 2,500 locations in the country. After assessing software on the market, he says, Kaul decided to build one in-house. The system has the ability to track cash pick-up and delivery from banks, ATMs and high volume retail clients such as Dominos Pizza and Amway. Neogi gets updates every two hours. This improvement in productivity is showing on the HR cost, says Khandelwal. HR costs today are half of revenues, about 15 percentage points lower than in 2009.

With the tools in hand and working well, the company is now diversifying into businesses that will manage cash

not just for the banks, but for businesses and customers. One of such businesses is that of managing currency chests. This is where currency is held pending distribution, and is owned mostly by the banks themselves. Kaul says he is in talks with the RBI about the cost of idle cash. "We are looking at a whole ecosystem to reduce the cost of idle cash," says Venkatesh R., Chief Strategy Officer.

Today banks set up these chests by themselves. They put in the money behind the infrastructure, behind the machinery and people. What CMS proposes is very similar to the ATM story, where a partner puts up all this infrastructure, and charges them per transaction. This puts the accountability on the partner, who would charge on operating expenses (opex) rather than capital expenditure (capex).

This fits right in with the challenge of delivering the cash whenever and wherever it is needed. "The biggest challenge is cash availability to us on time. Our operations could be far more efficient," Venkatesh says.

The revenues will be small, to be sure. Managing currency chests can bring in about ₹30 crore topline in three years. "It is not for revenues, but putting in a comprehensive offer as far as cash management is concerned for the customers," says Kaul. In the long run, this will change the business for CMS.

And then there are the company's plans of entering retail store management. Currently, the company pick up cash from up to 35,000 outlets and move it to banks. Now, the company plans to also manage the teller at the retail outlet and later, even manage their inventory. The only place where the retail chain owner will need staff is in sales. The pitch is that with CMS's core competence being in just-in-time deployment, the operational headache can be outsourced to it, says Kaul, who's keenly eyeing the next big wave. ♦

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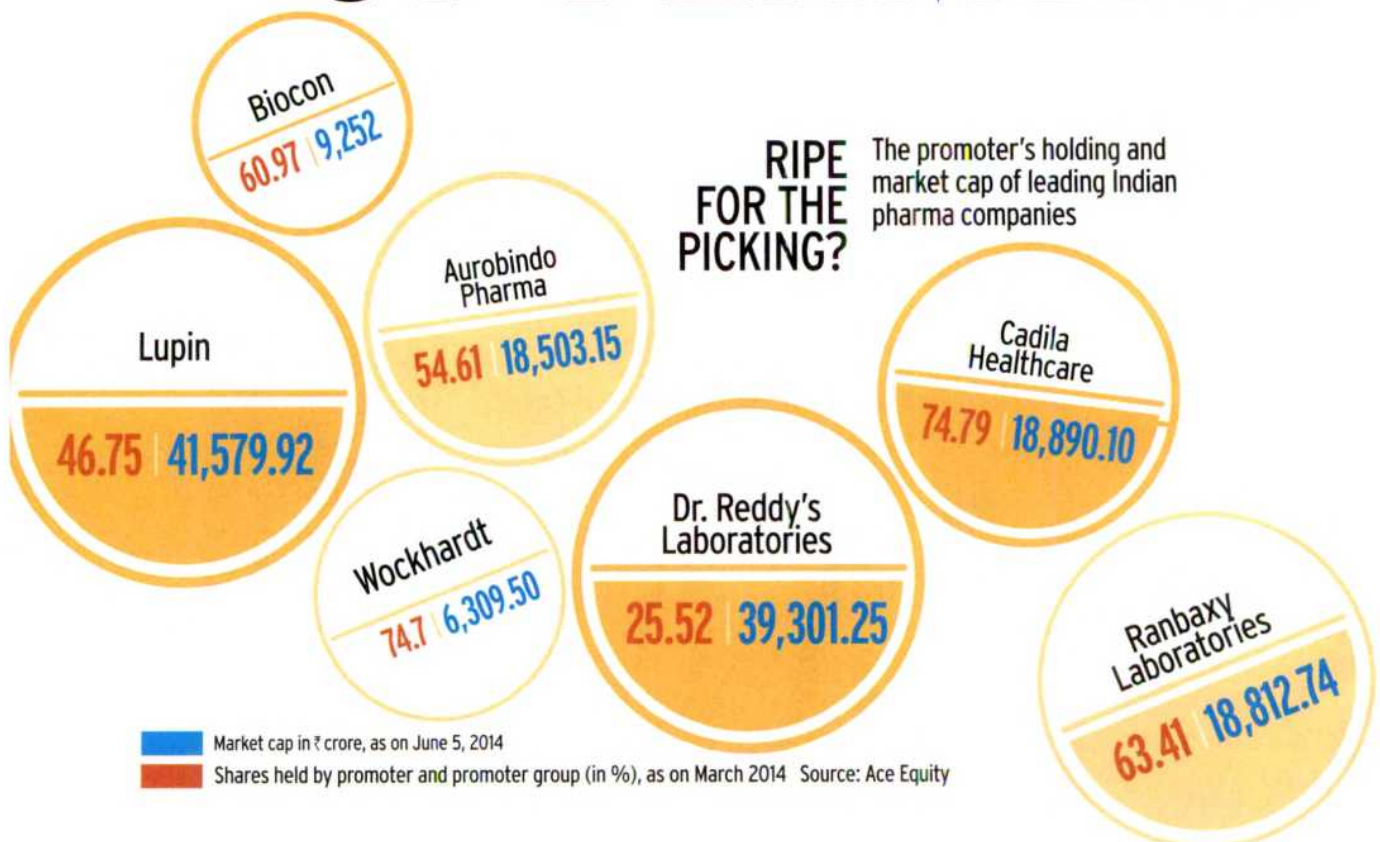
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The promoter's holding and market cap of leading Indian pharma companies

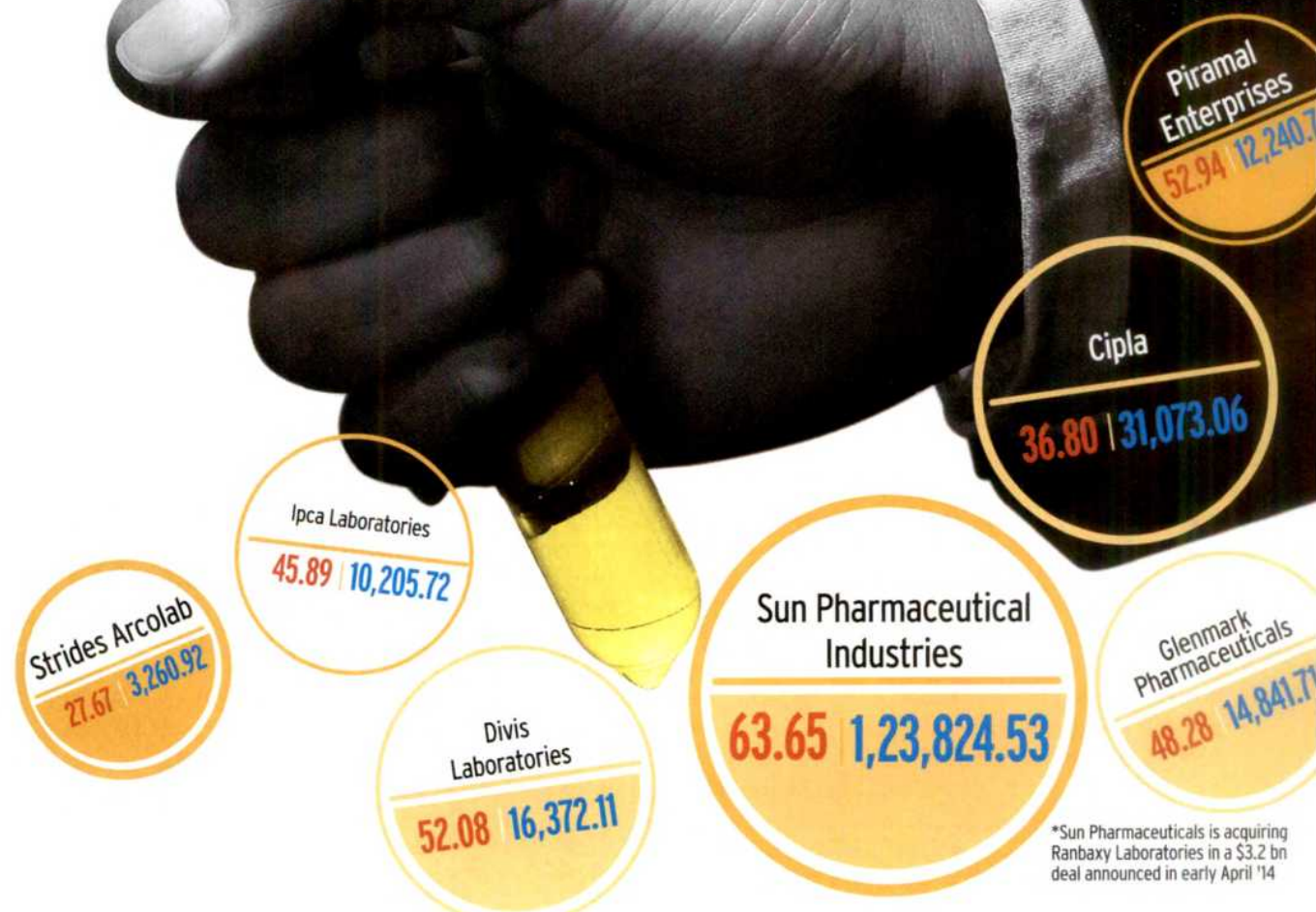




Will the Sun Pharma-Ranbaxy deal be followed by further consolidation in the Indian pharma industry? Leading companies, such as Cipla and Dr. Reddy's, are being watched.

By E. KUMAR SHARMA

Two recent developments in the global pharma sector may well be pointers to the shape of things to come. The first was the \$3.2 billion deal in early April, by which Sun Pharma acquired Ranbaxy, making the combined entity the fifth-largest generics company in the world and the largest in India. Sun Pharma had made 16 other acquisitions before, but this deal was larger than all of them put together. The second was the realignment of business interests by Novartis AG and GlaxoSmithKline (GSK) Plc in late April, by which Novartis sold almost its entire vaccine business to GSK, while buying up the latter's oncology drugs business. The two companies also



*Sun Pharmaceuticals is acquiring Ranbaxy Laboratories in a \$3.2 bn deal announced in early April '14

joined hands to set up a new consumer health-care company. Separately, Novartis also sold off its animal health drugs business to another pharma giant Ely Lilly. There was also intense speculation for some time about Pfizer buying up AstraZeneca. Though that has been laid to rest, consolidation moves are clearly afoot, which may well have major implications for India.

Why India?

It is because Indian companies have strengths that are hard to ignore for any global player seeking scale. And generic drug makers need scale to prosper, since the segment is a crowded one, with wafer-thin margins. Thus, the world's leading generic company, the Israel-based Teva, has between 1996 and 2011 made 16 acquisitions globally. The US-based Mylan, the most active of global players in India, has done about half a dozen major deals so far, investing around \$3 billion in India alone.

Global pharma companies have the money – Pfizer sits on cash of \$2.2 billion, Teva on \$1.04 billion and Novartis on \$9.2 billion. (See *Deep Pockets*.) In comparison, all the companies on the Bombay Stock Exchange's Health-care Index – excluding Sun Pharma, Ranbaxy and GSK Pharma – have a total market capitalisation of around \$40 billion.

Market watchers maintain that among the major Indian pharma companies the two most prized pickings would be Dr. Reddy's Laboratories and Cipla Ltd. The former has a strong biosimilar pipeline, a robust business portfolio in injectibles in the US and focuses on products that face limited competition there. About 42 per cent of its revenue is generated in the US. It is the largest Indian pharma player in Russia and the Commonwealth of Independent States coun-

WHERE THEIR STRENGTHS LIE

CIPLA

Strong in respiratory and anti-AIDS drugs

Strong in emerging markets, especially Africa, West Asia and Australia

India contributes 50 per cent of its total revenues

Known for its partnership model, it is now also building direct front-end market presence in some markets

DR. REDDY'S

Leading Indian player in some emerging markets like Russia and the CIS region

Focuses on biosimilars

Has successfully tapped opportunities in the US with limited competition products

LUPIN

Largest Indian company in the Japanese generic market

Strong in emerging markets, especially the CIS region, Africa, Australia and South East Asia

Has a US market in niche areas like oral contraceptives, ophthalmics and asthma

GLENMARK

Strong in emerging markets with a presence in Latin America, Africa and the CIS region

Focuses on low competition products in the US. Strong in segments like dermatology, respiratory and anti-infectives

tries as well. It is also investing heavily in research and development. Cipla is strong in Africa, especially South Africa with an edge in anti-AIDS generic drugs, a healthy respiratory care business along with strong domestic penetration. About 50 per cent of its total revenues come from India. And barring its 78-year-old Chairman Y.K. Hamied, and his

brother M. K. Hamied, the non-executive Vice Chairman, it is run entirely by professionals – there are no next-generation members of the company's founding family in senior positions. (See *Where Their Strengths Lie*.)

Certainly, acquiring either is not an easy task. Dr. Reddy's had a market cap of \$6.6 billion (as on June 5, 2014). At a modest 20 per cent premium, this would still mean an acquirer having to shell out around \$8 billion. Similarly, Cipla's market cap was \$5 billion (as on June 5, 2014), so a buyer would have to pay at least around \$6 to \$7 billion for it. Secondly, acquisitions are not easy in India, where they need not only shareholder approval, but also that of the Foreign Investment Promotion Board (if the buyer is based overseas) and the Competition Commission of India. Most importantly, neither promoter reveals any intention of selling. "At least not in my lifetime," Hamied once told *Business Today*. G.V. Prasad, CEO at Dr. Reddy's, is as forthright: "Do I have a better option for my investments?" he asks. "As far as we are concerned, we are not available for acquisition and this, therefore, does not cross our minds."

How do industry watchers feel? Pharma sector expert Sanjiv Kaul, Managing Director, ChrysCapital Investment Advisors, believes consolidation in pharma is inevitable. "The question is: how soon will it happen?" he says. "In the last seven to eight years, we have had some examples of consolidation, but the experience has not been that great." He is referring in particular to Japanese major Daiichi Sankyo acquiring Ranbaxy in 2008 – Ranbaxy has since had embarrassing run-ins with US drug authorities. Eventually, Daiichi Sankyo exited Ranbaxy. "But once the global economy starts improving, you will see a lot of cross-border deals taking place and some of it will be in the arena of

"Depending on the inclination of the promoters' children, Indian pharma will start seeing changes in ownership models" KAVIL RAMACHANDRAN, PROFESSOR /ISB

consolidation," he adds.

Those in the industry respond cautiously. Glenn Saldanha, Chairman and Managing Director, Glenmark, agrees that consolidation in Indian pharma may well be waiting to happen, but believes the leading companies are relatively immune. "The pressure is not that great on the leading companies. It is much more on the small and medium companies operating in India, because of the competitive landscape," he says. "There is enough opportunity for leading Indian companies to continue to grow and continue to perform."

But there is distinct overseas interest in the leading Indian pharma companies, too. "Japanese companies need bigger markets and India offers one. Therefore, they are keenly looking at India," says Deepak Anand, Director-Research, Japan External Trade Organisation. "This is despite the somewhat unpleasant experience Daiichi Sankyo has had in India." He maintains the top 20 Japanese companies such as



Takeda, Astellas, Mitsui and Mitsubishi Pharma are all seriously looking for opportunities in the Indian drug market. "The top 20 Indian pharma companies could be good contenders for takeovers," he adds. "After the recent Compre-

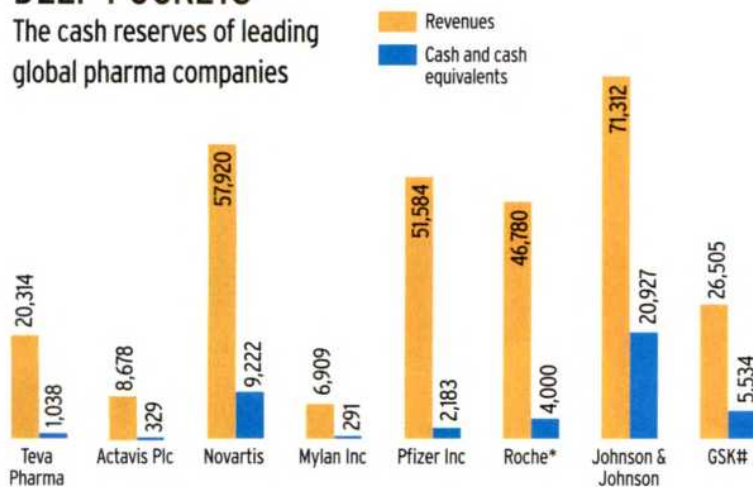
hensive Economic Partnership Agreement (CEPA) between India and Japan, mergers and acquisitions between companies of both countries have become easier."

Attitudes are also changing. Noting that Indian promoters are often emotionally involved with their businesses and do not want to sell even when a good opportunity presents itself, ChrysCapital's Kaul adds: "There is a thawing on the part of promoters. On a scale of one to 10, if one represents total opposition to selling and 10 amounts to being ready to be acquired for the right price, I would put most Indian companies at five or six. Ten years ago, they'd have been at two or three."

Kavil Ramachandran, who leads the Thomas Schmidheiny Chair of Family Business and Wealth Management at the Indian School of Business, Hyderabad, has done extensive work on promoter families. "A lot of decisions on selling the promoter stake will be linked to issues of succession," he says. "Most leading Indian pharma company promoters are still young and thus a picture of what the next generation will be like has yet to clearly emerge. Since pharma is a knowledge and technology-intensive industry, you may see some promoter families either exiting or diluting their stake depending on the attitude of the next generation and its interest in pharma." He believes Indian pharma will in time see different kinds of family ownership where some families would be actively involved in the business, while others would be passive owners, only interested in their income from the company. ♦

DEEP POCKETS

The cash reserves of leading global pharma companies



* in millions of CHF # in million £

Other figures in million \$ Data as on December 2013

Consolidated financials Source: Company reports

@EKumarSharma

"I see myself as creator of exciting, growing businesses"

At The Boeing Company he is still cherished as a star and for the Ford Motor Company, he definitely is a saviour. Making and selling planes and cars are two different things but **Alan Roger Mulally** (69) applied what he learnt at Boeing to turn around Ford. So after leading this giant American corporation to success in the span of nearly eight years, he is all set to leave Ford on June 30. On a farewell visit to the company's Chennai plant, he spoke to **N Madhavan** on leadership, management philosophy and the secret behind his high motivation levels that refuse to ebb away even after a 45-year-long career. Edited excerpts from the interview:

NILOTPAL BARUAH/www.indiatodayimages.com



All through your career, you have worked in just two companies - Boeing and Ford. Is longevity key to your success?

In my case I found two dreams to live. The first one was Boeing. I graduated as an aeronautical engineer and got a chance to work for the finest airplane company in the world. The longevity was natural as I got to serve in the design team of every new airplane. Each one of them changed the world whether it is 737 Short Range, 747 Long Range or 777, which can fly non-stop half way around the world. I spent 37 years there but it was just exciting. I never really thought I will leave Boeing. As a matter of fact I wanted to design one more plane - the replacement for Boeing 737. Then I got a call from Bill Ford. I really felt that I was being asked to serve a second American and global icon. My 45 years in the two companies went like a flash.

When you decided to join Ford, the projections were that it would incur a loss of \$17 billion, the highest in its 104-year history. Nevertheless you joined. Why?

It was indeed a serious time and Ford could have run out of money really fast. But I always believed in the power of talented people working together around a compelling vision and a comprehensive strategy to achieve that vision. I knew even though Ford was in a tough financial shape, if we really pull together and move decisively we could actually reverse the situation and create an exciting profitable company, which is

"If we had not borrowed the money, we would have gone out of business. The most important thing is to have a point of view, believe in it, prove it to your team and then just do it"

what we did. I never really had a doubt about turning around Ford.

When you pledged all of Ford's assets, including the blue Oval, to raise \$23.5 billion, many saw it as an 'act of desperation'. In the end you were proved right. How should a leader deal with criticisms?

It is true that a lot of people had criticised the move and many even questioned our ability to repay the loan. If we had not borrowed the money, we would have gradually gone out of business. We would not have restruc-

tured, invested in new products and served fast-growing markets. The most important thing is to have a point of view, believe in it, prove it to your team and then just do it.

You are the most sought-after turnaround manager. What are the essential attributes of such a leader?

I see myself more as a creator of exciting, growing successful businesses. That really drives me. The most important thing is figuring out what we have to dedicate our lives to and achieve it in the best possible manner. In Ford's case we stuck to Henry Ford's original vision of making cars available to all. For this we had to get Ford back on rails. We chose to divest brands such as Volvo, Jaguar and Land Rover and focus only on Ford and Lincoln, commit serving all markets around the world with complete family of small, medium and large cars and trucks, offer best in class vehicles - in terms of quality, fuel efficiency, safety and smart design at very best value. To achieve this we chose to work as one company utilising all the available resources effectively.

Your ability to convince the team at Ford about your vision is seen as a key reason for success. How did you execute it?

The vision was born with all of us working together. It was not something that came to me in the middle of a night. I asked everybody at all levels of the organisation what they thought we should do to revive the

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→ **-Deconstructing life's lessons:** Mulally used a Venn diagram to explain that his day's events, be it work, family or spiritual, are not mutually exclusive

company. The fact that we did it together, we all owned it. All the 1,70,000 employees, all our suppliers and dealers knew the plan. They knew the status and what was expected of them. We co-created the plan together and the more you do that the stronger the commitment is and more decisive we can be in its implementation. Also, we put a management system to measure the progress of the plan and identify areas that needed special attention. Our weekly business performance review meetings (held every Thursday) are very comprehensive.

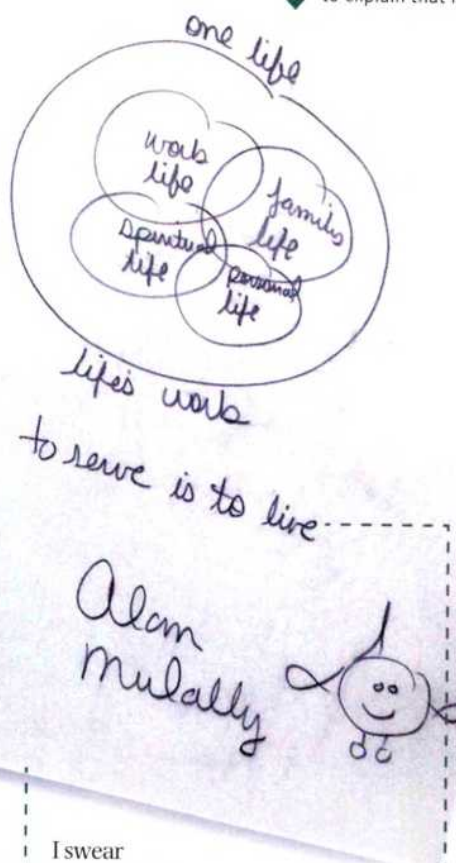
What leadership lessons did your stint in Boeing and Ford teach you?

The biggest lesson is seeing your role more as an honour to serve the consumers, employees and other stakeholders and thereby contributing to economic development and a sustainable environment. Also, creating profitable and viable business by harnessing the power of talented people generates a lot of satisfaction personally and professionally. A positive attitude is critical. It helps you look at the world the way it is and find a way out of every challenge.

What is your leadership style?

Inclusive. Set a vision and demand high performance coupled with accountability, create trust, deal people with respect and have loads of fun.

Your zest belies your age and the fact that you have been working for 45 years. What's the secret?



I swear by this particular philosophy (not sure where I learnt this from). **People tend to break up their lives into work life, family life, spiritual life and personal life. I get lot of energy from the fact that I lead one integrated life. I like being a father, a spouse, looking up to things larger than you spiritually and every once in a while love being me. Key for me is to have all these things that are important to me integrated into my daily life.** This I do by looking at my schedule every morning and every night to ensure that everything that is important is included. I never separate these out. I don't decide that I will have family life next year on this day or read a book next weekend as part of my personal life. I am married for 44 years and have five children. We have a family meeting every Sunday morning to decide on the calendar. Who has to go to a soccer

game, ballet and so on. The kids look at the calendar to tell me if they want a bit more of me. It's an integrated life. If something is missing in a day, I put it back.

You have said that many times the excitement of the next day's business performance review meeting has prevented you from sleeping. How do you manage this level of motivation after so many years at work?

I love reviewing performance and watching our dream take shape, talking to colleagues across the world and looking at colour codes. Mark Fields [CEO designate] called me early in the first week of this month from Europe where he was reviewing the operations asking me if I could lead the business performance review meeting. He had looked up at the calendar and realised that it will be the last Thursday I will be at Dearborn before retirement. A year and a half ago he was made the COO and I moved aside to let him lead the meeting. I grabbed the opportunity to lead the meeting again (smiles).

Do you still have the same appetite to take up challenges?

I don't feel any different from how I felt when I participated in my first airplane programme at Boeing or the day I started work at Ford. **I see my work as service and I love it. To serve is to live.**

Any regrets?

No. We did everything to create a viable, exciting and profitable Ford. ♦

@Madhuta

UP
13%
Turnover

Year on Year

850%
Total
Dividend

2013-14

Working with Passion. Growing for the Nation



UP
10%
Production

Year on Year

UP
16%
Sales

Year on Year

NMDC

PART - I

(Rs. in Crore)

(Rs. in Crore)

STATEMENT OF AUDITED FINANCIAL RESULTS FOR THE YEAR ENDED 31/03/2014

Particulars	Stand alone				Consolidated		
	Three months ended		Year to date		Year ended		Year to date
	31-Mar-14	31-Dec-13	31-Mar-13	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
	Audited	Un-Audited	Audited	Audited	Audited	Audited	Audited
1. Income from operations							
(a) Net Sales/Income from operations (net of excise duty)	3,883.52	2,821.53	3,202.10	12,052.29	10,698.67	12,052.29	10,698.67
(b) Other operating income	0.97	1.64	2.15	5.91	5.60	5.91	5.60
Total Income from operations (net)	3,884.49	2,823.17	3,204.25	12,058.20	10,704.27	12,058.20	10,704.27
2. Expenses							
(a) Consumption of raw materials	5.85	8.78	7.62	26.50	30.94	26.50	30.94
(b) Consumption of Stores & spares	138.88	83.28	100.49	346.31	257.99	346.31	257.99
(c) Changes in inventories of finished goods and work-in-progress	-80.32	-5.82	-73.07	-14.27	-184.33	-14.27	-184.33
(d) Employee Benefit Expense	255.85	157.35	161.46	706.20	579.92	706.35	580.06
(e) Royalty & Cess	328.67	225.55	303.51	960.43	952.43	960.53	952.53
(f) Selling Exp incl. Freight out	446.73	243.17	392.86	1347.41	818.00	1347.41	818.00
(g) Depreciation and Amortisation	43.10	36.17	38.68	150.41	138.52	150.65	138.77
(h) Other Expenses	318.92	208.05	561.58	914.16	871.35	915.26	874.58
Total Expenses	1,457.88	956.53	1,493.13	4,437.15	3,464.82	4,438.74	3,468.54
3. Profit from operations before Other income, finance cost & exceptional items (1-2):	2,426.61	1,866.64	1,711.12	7,621.05	7,233.45	7,619.46	7,235.73
4. Other income	527.54	507.70	547.39	2,094.52	2,238.87	2,089.11	2,238.98
5. Profit from ordinary activities before finance costs and exceptional items (3+4):	2,954.15	2,374.34	2,258.51	9,715.57	9,478.32	9,708.57	9,474.71
6. Finance cost	1.85	0.00	13.20	1.85	13.20	1.85	13.20
7. Profit from ordinary activities after finance costs but before exceptional items (5-6):	2,952.30	2,374.34	2,245.31	9,713.72	9,465.12	9,706.72	9,461.51
8. Exceptional items	-45.48	0.00	0.00	-45.48	0.00	-45.48	0.00
9. Profit from ordinary activities before Tax (7-8)	2,997.78	2,374.34	2,245.31	9,759.20	9,465.12	9,752.20	9,461.51
10. Tax expense	1,035.64	807.04	780.36	3,339.12	3,122.75	3,339.12	3,122.74
11. Net Profit from ordinary activities after tax (9-10):	1,962.14	1,567.30	1,464.95	6,420.08	6,342.37	6,413.08	6,338.77
12. Extraordinary items (net of tax expense)	-	-	-	-	-	-	-
13. Net Profit for the period (11-12):	1,962.14	1,567.30	1,464.95	6,420.08	6,342.37	6,413.08	6,338.77
14. Share of loss of Associates	-	-	-	-	-42.09	-	-5.02
15. Minority interest	-	-	-	-	-0.01	-	-0.01
16. Net Profit/(Loss) after taxes, minority interest and share of profit/loss of associates (13-14-15)	-	-	-	-	6,370.98	6,333.74	6,333.74
17. Paid-up Equity Share Capital:	396.47	396.47	396.47	396.47	396.47	396.47	396.47
Face value per share	Re. 1/-	Re. 1/-	Re. 1/-	Re. 1/-	Re. 1/-	Re. 1/-	Re. 1/-
18. Reserves excluding revaluation reserves	-	-	-	29,591.83	27,114.49	29,550.36	27,122.12
19. I & II EPS for the period (Rs) - Basic and diluted before and after extraordinary items	4.95	3.95	3.69	16.19	16.00	16.07	15.98
	(Not Annualised)		(Annualised)		(Annualised)		(Annualised)

PART - II SELECT INFORMATION FOR THE YEAR ENDED 31/03/2014

Particulars	Three months ended		Year to date	
	31-Mar-14	31-Dec-13	31-Mar-13	31-Mar-14
A. PARTICULARS OF SHAREHOLDING				
1. Public share holding				
- Number of Shares	79,27,69,420	79,27,69,420	79,27,69,420	79,27,69,420
- Percentage of shareholding	20	20	20	20
2. Promoters and Promoter group shareholding				
a) Pledged/Encumbered				
- Number of Shares	0	0	0	0
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	0	0	0	0
- Percentage of shares (as a % of the total share capital of the company)	0	0	0	0
b) Non Encumbered				
- Number of Shares	3,17,19,46,580	3,17,19,46,580	3,17,19,46,580	3,17,19,46,580
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	100	100	100	100
- Percentage of shares (as a % of the total share capital of the company)	80	80	80	80
B. INVESTOR COMPLAINTS				
Pending at the beginning of the quarter			0	
Received during the quarter			22	
Disposed off during the quarter			22	
Remaining unresolved at the end of the quarter			0	

Segment wise Revenue, Results and Capital Employed under Clause 41 of the Listing Agreement

Particulars	Stand alone				Consolidated		
	Three months ended		Year ended		Year ended		Year to date
	31-Mar-14	31-Dec-13	31-Mar-13	31-Mar-14	31-Mar-13	31-Mar-14	31-Mar-13
	Audited	Un-Audited	Audited	Audited	Audited	Audited	Audited
1. Segment Revenue							
(net sale/income from each segment)							
a) Iron Ore	3,839.78	2,796.98	3,166.84	11,925.79	10,609.50	11,925.79	10,609.50
b) Other Minerals & Services	51.07	35.95	46.87	158.68	145.56	158.68	145.56
Total	3,890.85	2,832.93	3,213.71	12,084.47	10,755.06	12,084.47	10,755.06
Less: Inter segment revenue	6.36	9.76	9.46	26.27	50.79	26.27	50.79
Net sales/income from operations	3,884.49	2,823.17	3,204.25	12,058.20	10,704.27	12,058.20	10,704.27
2. Segment Results							
(Profit (+) / loss (-) before tax and interest from each segment)							
a) Iron Ore	2,510.78	1,949.24	1,764.60	7,910.81	7,385.10	7,910.71	7,384.97
b) Other Minerals & Services	46.27	-2.99	-1.65	37.99	28.76	36.49	25.16
Total	2,557.05	1,946.25	1,762.95	7,948.80	7,413.86	7,947.20	7,410.13
Less: Interest	-1.85	0.00	-13.20	-1.85	-13.20	-1.85	-13.20
Add: Other unallocable income net off unallocable expenditure	442.58	428.09	495.56	1,812.25	2,064.46	1,806.85	2,064.58
Total Profit before Tax (incl discontinued operations)	2,997.78	2,374.34	2,245.31	9,759.20	9,465.12	9,752.20	9,461.51
3. Capital Employed							
(Segment assets-Segment Liabilities)							
a) Iron Ore	3,570.38	3,232.54	3,048.72	3,570.38	3,048.72	3,573.07	3,051.56
b) Other Minerals & Services	156.07	98.42	106.38	156.07	106.38	175.26	114.56
Total	3,726.45	3,330.96	3,155.10	3,726.45	3,155.10	3,748.33	3,166.12

STATEMENT OF ASSETS AND LIABILITIES (Rs. in Crore)

Particulars	Stand alone		Consolidated	
	Audited		Audited	
	Year ended 31-Mar-14	Year ended 31-Mar-13	Year ended 31-Mar-14	Year ended 31-Mar-13
A. EQUITY AND LIABILITIES				
1. Shareholders' Funds				
(a) Share Capital	396.47	396.47	396.47	396.47
(b) Reserves and Surplus	29,591.83	27,114.49	29,550.36	27,122.12
Shareholders funds	29,988.30	27,510.96	29,946.83	27,518.59
Minority Interest	-	-	1.37	1.36
2. NON-CURRENT LIABILITIES				
(a) Deferred Tax Liability (Net)	107.25	104.49	107.13	104.37
(b) Other Long term Liabilities	29.11	30.78	29.11	30.78
(c) Long-term provisions	11.44	12.38	11.48	12.41
Non-current liabilities	147.80	147.65	147.72	147.56
3. CURRENT LIABILITIES				
(a) Trade payables	185.67	160.76	185.68	160.77
(b) Other current Liabilities	1,153.20	1,101.96	1,160.29	1,107.32
(c) Short term provisions	1.95	1,860.39	1.99	1,860.42
Current liabilities	1,340.82	3,123.11	1,347.96	3,128.51
TOTAL-EQUITY AND LIABILITIES	31,476.92	30,781.72	31,443.88	30,796.02
B. ASSETS				
1. NON-CURRENT ASSETS				
(a) Fixed Assets	6,639.17	4,500.75	6,663.26	4,513.86
(b) Non-current investments	250.37	249.67	219.30	260.69
(c) Long term Loans and Advances	720.82	546.29	719.03	545.24
(d) Other non-current assets	5.37	5.37	5.37	5.37
Non-Current Assets	7,615.73	5,302.08	7,606.96	5,325.16
2. CURRENT ASSETS				
(a) Inventories	681.19	637.46	681.19	637.46
(b) Trade receivables	1,448.42	1,082.21	1,448.42	1,082.21
(c) Cash and bank balances	18,657.23	21,025.75	18,660.51	21,027.41
(d) Short term Loans and Advances	2,348.47	1,944.69	2,320.86	1,934.18
(e) Other Current Assets	725.88	789.53	725.94	789.60
Current Assets	23,861.19	25,479.64	23,836.92	25,470.86
TOTAL ASSETS	31,476.92	30,781.72	31,443.88	30,796.02

NOTES:

- The financial results have been reviewed by the Audit Committee at its meeting held on 30-May-2014 and approved by the Board of Directors at its meeting held on 30-May-2014.
- During the year, the company paid total interim dividend of Rs. 8.50/- per share of Rs. 1/- (4 interim dividend of Rs. 2/- paid in Nov '13 and 2 interim dividend of Rs. 5.50/- paid in Feb '14). No final dividend is recommended by the Board of Directors.
- The report of Iron Ore during the current year was 22.97 lakh tons as against 16.02 lakh tons of previous year. Due to this increase of report of Iron Ore by 6.95 Lakh tons, the selling expenditure has gone up by Rs. 458.95 cr.
- The consolidated financial results of 2013-14 are drawn in respect of subsidiary companies considering the financial statements for the year ended 31/03/2014 and in respect of associate companies by considering the available financial statements for the year ended 31/03/2013 except in respect of Legacy Iron Ore Limited which is consolidated based on the financial statements for the year ended 30/06/2013. The comparative previous year figures are also drawn on the similar lines. However, the companies under liquidation (i) NMDC SAIL, Madagaskar, a subsidiary company and (ii) Romet-Sail (India) Limited, an associate company are not consolidated. The accounts of JV company Kopano-NMDC Minerals (Proprietary) Limited are not consolidated as the transactions are not material.
- The above financial results are subject to audit under Sec 191(4) of the Companies Act, 1956 by the Comptroller and Auditor General of India.
- The figures of last quarter of the stand alone are the balancing figures between audited figures in respect of the full financial year and the published year to date figures up to the third quarter of the current financial year.
- Figures for the previous year have been regrouped wherever considered necessary so as to conform to the classification of the current year.

For NMDC Limited

(Narendra Kothari)
Chairman-Com Managing Director

Place: Hyderabad
Date: 30-May-2014



NMDC Limited

(A Government of India Enterprise)
Regd. Office: "Khanji Bhavan", 10-3-311/A, Castle Hills,
Masab Tank, Hyderabad-500 028.

CIN : L3100AP1958G001674

Website: www.nmdc.co.in

All **Pumped** **Up**

Shoe retail is becoming a battleground as new entrants try to muscle in on market share. By **ARUNIMA MISHRA**

With the 150-year-old bespoke shoe maker John Lobb launching its 'By Request' service in the country in June, Indians can now be part of a clientele that includes aristocrats and opera stars. The company, acquired by the Hermes Group in 1976, will sell shoes in India at ₹70,000 to ₹6 lakh – in line with its global prices – through the request service, which lets customers choose from over 150 designs and personalise their purchase by selecting the leather, colour, width and sole.

Through its partnership with Mumbai-based retail company Regalia Luxury Retail, John Lobb will introduce its brand and services to Indian customers. It plans to open

an exclusive store in the country later. London-based Thomas Collette, Commercial Director (Europe, Middle East and India), John Lobb Bootmaker, says India is "a fantastic opportunity" for his company. He says this is the first time such an exclusive shoe brand is entering the Indian market. "Price consistency is key for JL, as we do not want to create divisions between our markets," he says.

The footwear retail business in India is bustling with activity. International brands, including Pavers England, Clarks, Crocs, Skechers, Aldo and Charles & Keith, are expanding in India, while home-grown Liberty Shoes and Reliance Footprint are innovating to stay ahead. Tata International, the Noel



PHOTOGRAPHS BY VIVAN MEHRA



Video interview of Vivek Gaur at
www.businesstoday.in/yepme-gaur

Tata-led company, is venturing into a branding and distribution model for footwear.

In 2013, US shoe brand Crocs sold more than 54 million pairs worldwide. That number is expected to increase in 2014. While organised retail reaches only 5,000 postal codes, e-commerce companies reach 25,000. To reach out to smaller cities, Crocs is launching a virtual store in association with Jabong.com, and building a retail distribution partnership with Amazon.com. It has roped in Bollywood starlet Yami Goutam to promote its brand. The maker of the iconic clog has expanded its product portfolio by introducing beach, office and casual product lines. Revenue from clogs is now less than 30 per cent of what it earns from its fashion line.

Nissan Joseph, General Manager, Crocs India, says: "Crocs grew 200 per cent in the Indian market in the last two years, though it was launched way back in 2002. What did not work for the company was its India line of shoes, because Indians wanted the global style." Its shoes are priced between ₹1,400

Size of Indian footwear market
₹25,000 cr

and ₹7,000.

According to industry insiders, in the past 12 months, Crocs India's turnover has crossed ₹100 crore.

Joseph says India will be one of the top 10 countries for Crocs soon. It continually runs digital campaigns in the country, and has a mobile app called Crocs Mix & Match. In three years, Joseph says, Crocs will more than double its exclusive brand outlets (EBOs) from 35 now to 80. It will also double its presence from the current 400 multi-brand outlets (MBOs) such as

Shoe shine: General Manager Nissan Joseph says Crocs India grew 200% in two years



Foot soldiers: Liberty Shoes CEO Adesh Gupta (left) and Director (Retail) Anupam Bansal are ready for battle

Lifestyle, Shoppers Stop and Reliance Footprint.

Footwear marketers cannot ignore the fact that customers have access to information about recently launched designs globally. Like Crocs, British shoe maker and retailer Clarks launches its global line simultaneously in India. It has sold 400,000 pairs in two and a half years of operation in India. It currently has 50 EBOs. Women customers account for two-thirds of the shoes it sells.

Clarks has a city-wise strategy. For instance, in Mumbai, Delhi and Bangalore, its women's shoes sell the most. Its bestsellers are multi-coloured sandals. Competitors now emulate its USP of half-sizes.

S. Ramprasad, CEO of Clarks Future Footwear, a joint venture between Clarks and the Future Group, says customers like the contemporary designs of his company's products. "It's not extravagant or loud, and we have extra-wide shoes that fit men well," he says. "Theme-

based product displays help us sell more at the Clarks stores."

He adds that Clarks has 500 stores in the UK, which has a fraction of India's population. It takes time to build that big a retail exposure. Trainers from the UK come to brief Indian floor staff every quarter on new season launches and on what customers like. Clarks relies on the Future Group's expertise on the Indian market to

85%
Share of unorganised sector
in Indian footwear market

identify the best locations for new stores.

Bata India's footwear collection has evolved over the years. Rajeev Gopalakrishnan, Group Managing Director, Emerging Markets, Bata India Ltd, said at his company's 81st annual meeting recently: "Bata's turnover has doubled from ₹1,000 crore in 2008 to ₹2,000 crore this

year [2014]. It's growing at a CAGR of approximately 15 per cent. The large-scale expansion and renovation of stores, addition of accessories like bags, sunglasses, belts to our product portfolio, focus on improving customer service, addition of new value-oriented products, consolidation of manufacturing processes, and focus on the non-retail sales division, all together has yet again enabled our company to reach milestones in 2013."

E-commerce companies, such as Myntra and Yepme, are pushing sales of private labels. Yepme, which sells only private labels, expects to earn 50 per cent of its revenue from footwear this year. It has doubled this year's advertising budget from ₹26 crore in 2013 to ₹44.5 crore this year, and roped in Bollywood actor Farhan Akhtar for a television commercial. Prices of women's shoes range from ₹149 to ₹899. Yepme sources footwear from Agra, Delhi, Kolkata, Mumbai and Himachal Pradesh. It designs and sells it through its private label. Co-founder



and CEO Vivek Gaur says: "In case of MNCs, there's hardly any opportunity to scale up, because of the high cost structure. Also, online has a future, as the brick-and-mortar model will always have the disadvantage of occupancy." He adds that online customers choose from a larger variety. "We sell 5,000 men's pairs and 2,000 women's pairs a day," he says.

Like their global counterparts in India's ₹25,000-crore footwear business, home-grown players are aggressively expanding to increase the share in the organised market from just 15 per cent at present.

Almost 60 per cent of Liberty Shoes's revenues (₹500 crore in 2013/14) come from the domestic market. Since 2010, the company has reworked its product portfolio and has adopted a high-fashion, low-inventory strategy. It has a share of around 25 to 30 per cent in the organised footwear market. It sells 50,000 pairs daily, and adds 50 stores every year.

It has introduced features such as Nature's Spell to make its stores more appealing to customers. Nature's Spell is a fragrance that counters the smell of leather products that typically pervades stores. Liberty CEO Adesh Gupta says: "Fragrances can transform emotions and heal bodies. They also elevate the state of mind, and influence emotions and behaviour. The fragrance of Nature's Spell has been marvellously crafted, with the scent of delicate white tea mingled with spicy ginger and fruit." He adds that the response from customers has been overwhelming.

Another home-grown player, Reliance Footprint, which belongs to Reliance Retail, is aiming for a leadership position. Started in November 2007, the venture reaches customers through more than 165 MBOS and 174 EBOs, and plans to add 50 stores each year. It sells more than 60 brands, and has private labels (Mancini, Toska, Monza) for men's,

Sizing Up the Business

A ₹25,000-cr category growing at 15% a year, India's footwear industry is the world's second largest producer after China's

Tata International is venturing into a branding and distribution model for footwear

First-time shoppers are confident about buying footwear online, as sizes are standard across brands

Almost 40% of Clarks men's formal shoes are made in India for export

The organised footwear industry is expected to grow 27% a year

women's and children's shoes, beachwear, and sportswear. It sells 15 to 20 per cent below the price band of the branded footwear, and sells in the northeast. CEO Gopalakrishnan Shankar says: "Our products are relevant to people who can afford a good shoe and are willing to move up the value chain. We will grow 40 per cent to 50 per cent every year. We will start the payless format, a western format, from August to have a value-fashion po-

sitioning in India."

Many Indian companies in the business have aggressive plans in place. The ₹10,000-crore Tata International's leather products contribute about 10 per cent to the company's revenue. The turnover of the footwear business is about ₹680 crore this year. Over the next three years, the company aims for ₹1,500 crore over the current business model, the majority of which is the made-to-order business. It currently produces 5.5 million pairs of shoes a year and wants to increase that to 10 million in three years.

About 85 per cent of the Indian footwear market is dominated by the unorganised sector. Liberty's Gupta says: "Today customers are more brand-conscious, hence... the growth of the organised sector is likely to be 27 per cent a year. With MNCs coming into the Indian market, we see a change in customers' perceptions. They will have more choice." He adds that his group aims to cater to all classes of people.

Anupam Bansal, Executive Director at Liberty, says his company plans to take on the competition by expanding its retail reach through company-owned and -operated outlets, as well as franchise stores. "We plan to bring in a big change in merchandising, to make our products more fashionable, youthful, colourful, affordable and comfortable, because Indian consumers are price-conscious."

He says it will not be easy for international brands to increase market share, because they would have to spend a lot on brand-building and reach. "MNCs today have little or a negligible market share in India, as they do not have a national footprint. With 1.3 billion people in India, where Liberty sold 11.5 million pairs in 2013/14, we still have huge scope for the penetration of Liberty-branded footwear through distribution." ♦

@Mishra_Arunima

Multi-tasking: Many office employees work and shop simultaneously

VIVAN MEHRA

Online shopping is changing the contours of the corporate workspace even as employers wonder how to tackle the phenomenon.
By ARUNIMA MISHRA

Workspace Redefined

That technology is redefining not just what we do but also how we do it has become a worn-out cliché and an everyday refrain. Nevertheless, it is a fact of modern life that these changes are far-reaching so much that words such as 'office' and 'work' are getting redefined in context and meaning.

Thanks to the seamless access to online information, the corporate workplace is no longer just a social space or a location where people work for a stipulated time. The surge in on-

line sales shows that people are shopping even from their offices. This change in work culture may have eased the daily lives of employees but the human resources departments of most corporate offices are still pondering if this trend is a drain on productivity and if so how to contain it.

At the office of a Delhi-based social media agency, Ayesha Mahanti, 26, browses on her smartphone amidst her work as the lead of content and innovation. She shops only when she is free and her employer does not have any policy against online shopping.

Mahanti says she does not buy online frequently but visits e-commerce sites regularly. "Unless I find something that I need, I only browse. I take about 10 to 20 minutes to complete an online transaction. At times, discount coupons are a bonus. But in my experience the kind of stuff I buy online, I do manage to get good deals," she says. Mahanti even takes delivery of goods she buys at office. "I prefer cash on delivery model of shopping and use debit/credit card option when gifting someone," she says.

With people using quick breaks at the workplace to shop online, e-commerce sites such as Amazon, Myntra, eBay, Lenskart, Mydala, Yepme and Flipkart witness the most online traffic between noon and 4 pm on working days.

Some companies like Infosys have already monetised this trend and started a multi-partner employee discount programme called InfyGold+. Registered Infy employees can avail discounts on retail buys, hotels, travels and electronics items to name a few. An exclusive page for Infy employees is hosted on the vendor site and can be accessed through the company's intranet. From the page, employees can download coupons and use them to shop online.

According to Richard Lobo, Head of Employee Relations, Infosys, InfyGold+ has been well-received by employees. "They can avail these unique offers by downloading cou-

Online Shopping Trends



E-commerce portals are busiest between noon and 4 pm on working days

55%
of regular shoppers are in the 26 to 35 age group

And, Company Reactions



Infosys has reconciled with online shopping. InfyGold+ enables company employees to get discounts on retail buys, hotels and travel



Capgemini India allows employees to use their personal devices but not its server to do online shopping

pons online using their smartphones, tablets or laptops. We don't see any impact on work productivity as a result of this programme," he says.

According to a financial services team member of Infosys, Nikhil Jose K., the InfyGold+ has a wide range of offers in different categories across

various cities. "The intuitive layout of the site helps in selecting the relevant offers. The offers are competitively priced," he says. A 26-year-old member of the manufacturing team, Anushree Yadav says shopping was never so much fun. "With InfyGold+, we now have access to many coupons, discounts and offers."

But not all IT firms have given the thumbs up to online shopping at the workplace. French IT firm Capgemini is a case in point. Like many other corporate houses, it has blocked access to all e-commerce websites. "We provide internet access to all employees to assist them in performing their job and it is governed by the Acceptable IT Usage Policy," says Rajesh Padmanabhan, Corporate Vice-President and Chief HR Officer, Capgemini India.

However, employees are free to use their personal devices for online shopping. "However, they are advised not to spend too much time on online shopping during office hours," says Padmanabhan.

HR experts aver that this trend is set to reshape the workplace and therefore a policy is a must. Ronesh Puri, Managing Director of Executive Access, a leading Asian executive search firm, says this employee behaviour is infectious and can take the focus away from work. "Initially organisations allowed it. Now for the last six to 12 months, some services and FMCG firms have blocked it. The best performers were not performing well. The reason was that they were spending too much time on e-commerce sites. The number of organisations blocking such sites will only increase in future," he says.

Unlike large corporate houses, start-ups offer more personal freedom, as many of them don't have a stated policy on e-shopping. Apparently different employees have different ways of meeting deadlines, and shopping online during work hours does not seem to impact productivity. "We believe in an open work culture. As long as employees

meet their deadlines, they can use the break time to shop online, talk over the phone or do whatever they want to," says Advitiya Sharma, Co-founder of Housing.com.

Avinash Sethi, Chief Marketing Officer at Sapience Analytics, a software start-up that develops workforce management software agrees. "Different companies have different policies. Large ones focus on discipline, increased work hours and ban social media sites. But it doesn't work that way in today's world," he says.

At many workplaces, e-commerce sites are blocked due to client servicing but employees are free to use their personal devices to shop.

According to Anisha Singh, Founder and CEO of Mydala.com, a best deals site, her team observes a spike in site visits during office hours. "Because mobile is where we get the majority of our traffic from, we find that there are a large number of visitors from 11 am to 5 pm and then from 8 pm to 9 pm," she says.

And so the challenge for HR lies in how to deal with employees at work using their smartphones to shop. "There is no real policy and companies cannot control the transactions carried out from an employee's smartphone. The only exceptions are the back offices of some credit card companies which don't allow smartphones on work premises," says Vidur Gupta, Director of Spectrum Talent Management, an executive search firm. He says some companies have also installed firewalls to block access to shopping sites while some others allow employees to browse

\$16 billion
Size of e-shopping market in India in 2013. By 2023, it is expected to touch \$56 billion.



"As long as employees meet their deadlines, they can use the break time to shop online, talk over the phone or do whatever they want to"

ADVITIYA SHARMA,
Co-founder, Housing.com



"Employees are free to use their personal devices for online shopping. But they are advised not to spend too much time on it during office hours"

RAJESH PADMANABHAN,
Corporate Vice President &
Chief Human Resources Officer,
Capgemini India

only in the cafeteria.

Mydala.com itself does not stop its employees from online shopping. "While there are no set guidelines, we do encourage our employees to balance their work hours. Our employee code of conduct has defined the company's expectations from its employees. As long as these are met, we let them work hard and play hard," says Nidhija Jain, Senior Vice-President, HR and Alliances, Mydala.com.

He says that in large companies employee engagement is low. "It is futile to ban certain websites. Of the mandatory nine hours a day, an employee on an average puts in 5.5 hours a day. In smaller firms, it is 6.5 hours a day. Performers perform in any case," says Sethi.

Organisational behaviour experts say this trend among employees shopping online while at work is their way of adjusting to fast-paced urban life. Some maintain the opportunity to shop online

compensates for late working hours and brings better work-life balance. According to Ajay Kumar Jain, Associate Professor of Organisational Behaviour at the Management Development Institute, Gurgaon, online shopping cannot be avoided as most families have working couples. "It is easy to manage the household which in turn makes an employee productive," says Jain.

However, Leena Chatterjee, Professor of Behavioural Science at IIM Calcutta, says anything that distracts people from work would affect the workplace ecosystem. "Employees should be allowed to shop online during their personal time, but there has to be a clear distinction of time management required for a job," says Chatterjee.

While opinions differ on what needs to be taken so that employee productivity remains unaffected, there is no denying the fact this trend of e-shopping is here to stay. ♦

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THE SWOOSH OF CREATIVITY

EXECUTIVE SUMMARY

Constant innovation has been the byword for Nike's success. This case study analyses the ever-evolving marketing strategies adopted by Nike to become a global brand.

By **MICHELLE SANUSI, ALEXANDER LAZAREV, JESPER MILLING JORGENSEN, VASYL LATSANYCH and TAIMURAZ BADTIEV**

Founded in January 1964 as Blue Ribbon Sports (BRS) by University of Oregon track athlete Philip Knight and his coach Bill Bowerman, the company was initially a distributor for the Japanese shoe-maker Onitsuka Co and their brand Tiger. In 1966, it opened the first BRS retail store in Santa Monica, California.

In those days, Bowerman would often rip apart the Tiger brand shoes to see how he could make them lighter and better. He used to take help from university runners to test his creations and collect their feedback.

By 1971, though BRS revenue had touched \$1 million, the business relationship with Onitsuka was turning sour. So, they moved on from being distributors of athletic footwear to designers and manufac-

turers of athletic footwear and took full control over their value chain.

In 1973, they called their brand Nike after the Greek goddess of victory. A design student Carolyn Davidson created the famous 'swoosh' logo for \$35. Today, the estimated market value of Nike is about \$10.7 billion.

In 1973, BRS signed its first endorsement pact with Ilie Nastase, a professional athlete and ATP tennis star. Endorsements have ever since been an essential part of the marketing growth of Nike.

The Innovation Curve

The company's innovation debut was in 1979 when it introduced air cushioning technology. The shoes featured gas-filled plastic membranes that could be inserted into the sole for comfort during running. Invented in the mid 1970s by a

NASA engineer, it kept up the revenue of Nike for long. But in mid 1980s the revenue started dipping mainly because the management did not take note of the aerobics boom. Nike's competitors had by then developed their business in this segment.

In a bid to regain its edge, Nike, in 1987, launched a new product called Air Max. The shoes had two interdependent bags with compressed air inside. This helped in absorbing shocks during running and jumping. The bags can be seen by the athletes (users) through a 'special window' in the heel or toe shoe. Nike also customised the product to suit individual needs by inserting bags of different size depending on the height and pressure exerted by users. This made it easy for a person involved in a particular sport to choose his/her shoes.

A full-page photograph of a woman with long dark hair in a ponytail, running on a sandy beach. She is wearing a blue and white checkered sports bra, purple shorts with orange trim, and blue sneakers. A white digital device is strapped to her lower back, with a white cord leading to her earbuds. The background shows the ocean and a blue sky with white clouds.

The marketing campaign for this product was supported by a memorable TV ad in which the Beatles' *Revolution* was the soundtrack. It was for the first time that a Beatles song was being used in a TV ad. Riding on the success of this campaign, Nike, a year later, launched an even more empowering series of ads with the tag line "Just do it".

The series had three ads featuring young sportsman Bo Jackson who campaigned on the benefits of a new cross-training pair of Nike shoes. Almost every year after Nike launched its air cushioning technology, it released new versions of Air Max. Currently, Nike has nearly 40 models under this brand name.

Shoes + Technology

In due course, even the hi-tech Air Max technology was found to be inadequate to entice customers. And it was time for something that would differentiate Nike in the long run. It had to be at once very distant from the core business and also very appealing. The focus was on digital gadgets. It had less to do with shoes and more to do with athletes. Nike's sales philosophy – if you have a body, you are an athlete – had en-

ticed everybody who wanted to think of himself/herself as an athlete or wanted to get more athletic.

Fast forward to May 20, 2006. On this day, Nike introduced its first mass produced gadget, Nike + iPod Sports Kit, in the US market. It was a tool to measure the distance and speed of a run or a walk and was built on a virtually flawless partnership strategy.

Nike was cashing in on the most

NIKE'S MOVE TOWARDS SOCIAL MEDIA MAY BE POTENTIALLY DANGEROUS

Nike's success lies in its ability to keep the brand modern and relevant in an ever-changing marketplace. It also remains consistent with its original brand identity. The 'Just Do It' tagline epitomises the lonely, rebel runner who aggressively strives to overcome his/her physical and psychological limits. The brand identity, therefore, is in sync with the ideas of individualism, aggressiveness, performance and empowerment. This helps Nike differentiate itself from its competitors. While Adidas's identity is built on team activities and community achievement, Reebok focuses on fashion and street credibility.

Nike's latest hi-tech innovations such as Nike + FuelBand focuses on individuality as it helps users track and improve their athletic performances. But the move towards social media is potentially dangerous as the idea of sharing information and belonging to a virtual community may be at odds with the individualism and rebelliousness of the Nike brand.

Of course Nike cannot ignore the social media but it needs to embrace it in a way that does not impact its brand positioning. The stress on using social media as a platform in which individual achievements are celebrated seems to be the right way to go. The Nike consumer remains a self-focused warrior but one that is less isolated in his/her struggles thanks to Nike technology.

Nike's brand management, therefore, is based on continuous revitalisation through gradual delivery changes in the brand's positioning. This approach is less risky than the intermittent repositioning efforts of other brands (for example Burberry Group).

Continuous revitalisation needs constant investment in consumer research with focus on development of brand image and the extent to which brand perception aligns with brand identity.

The USP of Nike is not its ability to effectively innovate but in its understanding of how innovation can be used to reinforce its original associations.



"Nike's success lies in its ability to understand how innovation can be used to reinforce brand identity"

SIMONA BOTTI

Associate Professor of Marketing,
London Business School

technologically advanced portable device that could do all the tech work brilliantly. What was it that Nike did for the partnership? It brought the idea and developed it into a business. The company was actually selling just a small electronic chip that had to be inserted in the shoe (preferably a special one, but even a regular shoe would do) and a wireless connection device that had to be plugged to an iPod. All the rest (calculation, storage, integration) was done by the iPod. But it was Nike's product. It paved the way to a truly innovative future of the company.



An upgraded product, Nike + Sportband Kit, was released in April 2008. It no longer needed an iPod and could be connected to the computer directly to download the results. All the next products were an enhancement of this concept. The chip in the shoes was integrated with the iPhone, enhancing the possibility to view, manage and share the tracking results through iTunes. A Nike + Sportwatch was also introduced in combination with the chip.

In September 2010, Nike introduced a running app to be used in the latest iPhones. The app used the phone's accelerometer and so there was no need of a chip in the shoe.

Going miles ahead of its competitors with a user community of more than six million people, Nike

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BUILDING MODELS BASED ON CUSTOMER EXPERIENCES

Innovation is the art of making hard things easy and creating viable business offerings. Innovation has become vital for survival, making it imperative for businesses to rethink strategies, become more nimble and adaptive, not just in product development, but also in building effective business models, processes and customer experiences.

Nike puts innovation at the heart of all its efforts. To run ahead of the competition, Nike took a unique approach

for its shoe manufacturing process and occupied the mind space as a maker of athletic shoes. It not only developed new products that created and defined categories but also developed new business models aimed at enhanced performance.

Nike has smoothly overcome local and global challenges varying from sustainable evolution of existing products and markets to create new products, thereby expanding its outreach.

“Nike took a unique approach for its shoe manufacturing process and occupied the mind space as a maker of athletic shoe”

SUNIL CHANDIRAMANI, Partner & Leader, Advisory Services, EY

products were not just dressing up the athletes but also coaching the masses who wanted to be like athletes. Products like Nike + iPod for gym goers and Polar WearLink+ targeted specific needs of users.

The users of Nike+ can not only store and review their results in their computers or devices but also analyse and share them within the community. The whole evolution process has managed to change the concept of what a regular apparel seller is. Through apps, Nike has come closer to its customers and can study them and communicate with them conveniently. In contrast, a regular apparel seller even after spending huge amounts on advertising can only expect to meet a customer in the store when the customer has already made a decision to go and shop there.

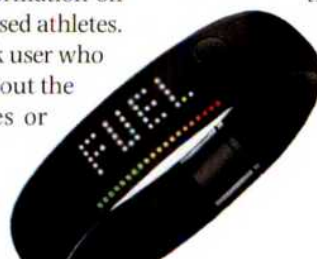
Thanks to its technology leap, Nike, it is said, was able to cut down on advertising expenses by 40 per cent without compromising on efficiency and results. The latest Nike products released in end-2012 include Nike + Baseball and Nike + Training Shoes. Yes, it is back to shoes but with lots of electronics, including Nike Chip Skis.

Nike's tech growth was also accompanied by social media initiatives. In 2008, Nike created a Facebook account. Today, each Nike sub-brand has its own Facebook page, which runs product specific promotions and features events in a particular sporting activity. It also provides information on the latest game of endorsed athletes. For example, a Facebook user who wants to know more about the latest basketball shoes or

game can turn to Nike Basketball Facebook page.

Nike pairing up with Apple Inc, another company known for its innovative products, was a way to bring into its fold the Facebook fans of the company. This helped the company to increase brand awareness and also reach out to customers who were still in two minds about choosing their brands.

The tie-up with Apple was Nike's realisation that most runners will use iPods or iPhones to listen to music while jogging. So now iPhones and iPods come pre-installed with Nike+ app. With this, iPhone/iPod users can map out their running route and later share it with their Facebook friends. One of the



company's latest products is Nike FuelBand, a wristband that calculates the amount of energy spent during a day. The band tracks the wrist movement, predicts the activity performed and the approximate amount of calories burned.

However, the number of calories spent is not a robust index of energy used because 100 calories burned by a person who weighs 100 kg is not the same as the same amount of energy burned by a person who weighs 50 kg. So, to create a platform where a group of people can compare their energy spent, Nike created a new index called Nike Fuel.

This index was actually introduced in the era of Nike+ app but it was not actively promoted until Nike FuelBand was launched. Compared to other specialised players like Jawbone's UP and Fitbit Flex, FuelBand is rather primitive. But its biggest selling point is the Nike + Fuelband Community on Facebook. The page on Facebook does not say much about the FuelBand. Instead it uses the social media site to motivate its users to get fit.

On this page, every week Nike

sets a new challenge for its followers. And it is here that Nike Fuel comes into play. Users can compare the Nike Fuel accumulated and comment on the challenge, motivate each other, share their difficulties and get suggestions on how to improve the general level of fitness.



Conclusion

Nike has been creative since the start. It has been pushing the technological boundaries of innovation to offer its customers new products and also differentiate itself from its competitors. Somewhere in its evolution, Nike also realised the importance of hi-tech gadgets in day-to-day lives. So it started to combine

new products with hi-tech solutions to give unconventional capabilities to a customer of sportswear.

Nike was also quick to seize the opportunity offered by social media to engage with a wider customer base so much so that it is now able to link its new hi-tech gadgets to social media platforms. The power of such customer contact is phenomenal as it gives greater visibility in a single click, generates interactions among customers and gives the company an opportunity to collect info about customers' choices and preferences. It also gives endless chances for customer segmentation and product differentiation, the pillars of any marketing strategy. ♦

(This case study is from the Aditya Birla India Centre of London Business School)

What can we learn from Nike's branding strategy? Post your comments at www.businesstoday.in/casestudy-nike. The best response will win a copy of **Marketing As Strategy** by Nirmalya Kumar. Previous case studies are at www.businesstoday.in/casestudy

BEST OF THE LOT

BT receives many responses to its case studies. Below is the best one on Gillette (April 13, 2014)

K.R.R. Rajendran, Student, Indian Institute of Management, Kozhikode



new IPL match viewers. With growing competition and customer expectations, exploring ways to create a new market would always be a good alternative. This gives the flexibility to design the market as required and of course gives the first-mover advantage.

Gillette was adept in creating a new business segment in one of the fastest-growing economies. The product Gillette Guard carved out a new segment by giving better shaving quality to customers who had certain economic constraints.

Starsports.com too did something similar when it launched a new service to telecast live the IPL matches to smartphone users who could not watch the match on TV. Starsports.com understood the importance of live matches for the cricket-loving country. The promotional advertisements seem to be effective and promote its use by smartphone users. Improved connectivity, low price of data plans and higher public aspiration to use such technology implies that Starsports.com has clearly set a platform for



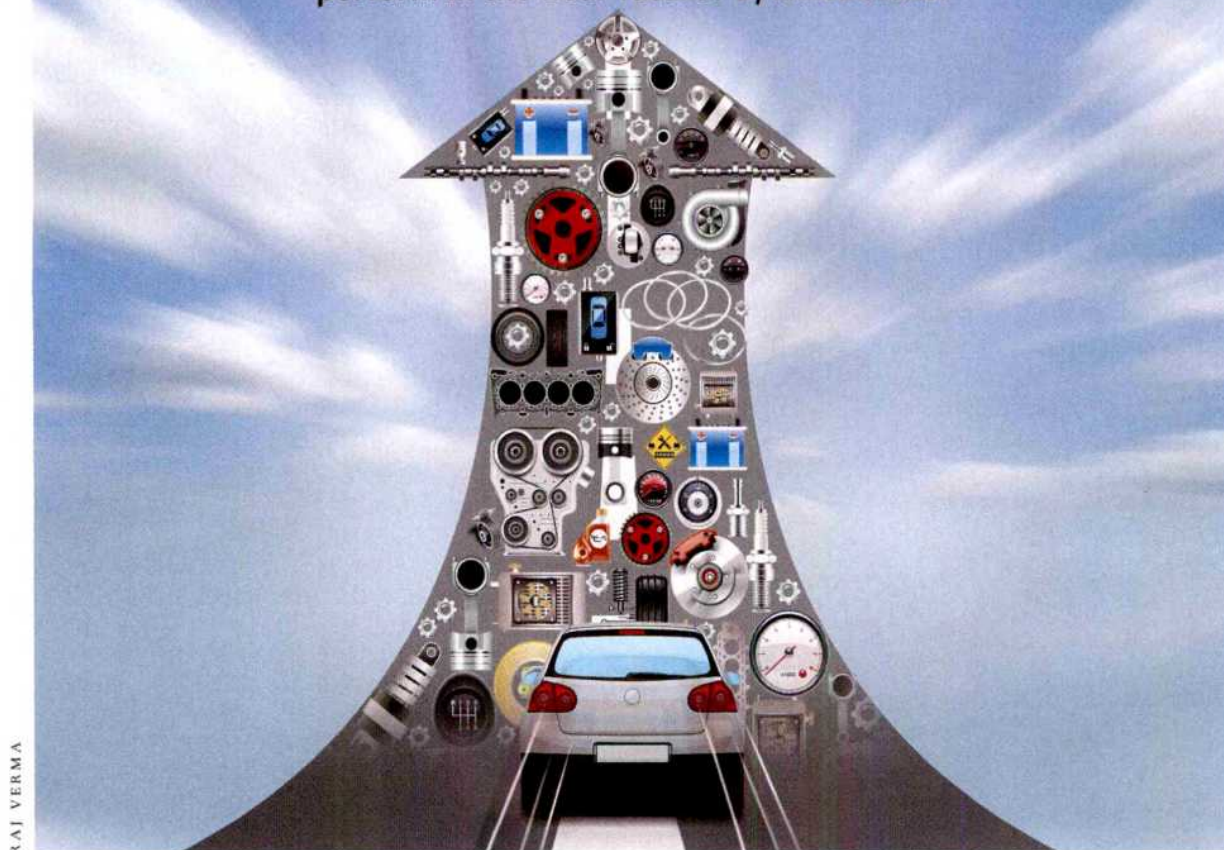
Rajendran wins a copy of the book **Marketing As Strategy** by Nirmalya Kumar

MONEY

ACCELERATING
AFTER A TORRID 2013,
WHEN THEIR SHARES
DIPPED SIX PER CENT,
AUTO ANCILLARY
COMPANIES HAVE BEEN
DOING WELL IN 2014,
SHARES RISING FAST

FAST FORWARD

Auto ancillary companies have been doing well of late. How will their stocks perform in the near future? By RAHUL OBEROI



Shares of auto parts makers are on a roll. They have risen 24 per cent on an average between January and April this year. This is welcome relief after a torrid 2013, when they had fallen six per cent due to poor demand for automobiles because of the economic slowdown.

For instance, this year till April-end, JBM Auto and Amtek Auto shares rose 132 per cent to ₹155.64 and ₹173, respectively. These were followed by Igarashi Motors India (up 108 per cent to ₹170.5), JMT Auto (up 82 per cent to ₹265.80), Sundaram-Clayton (up 78.5 per cent to ₹714.25) and Rane (Madras) Limited (up 68.19

per cent to ₹218.65).

"The downturn in the Indian auto industry led to fall in capacity utilisation in 2013. The slowdown in Europe and the US in the first half of the year also hit the top-line growth of auto ancillary companies," says Surjit Arora, research analyst, auto, Prabhudas Lilladher.

The valuations look reasonable at this stage. Out of 80 auto ancillary stocks, the price-to-earnings (PE) ratios of 63 are lower than the figure of 21.36 for the industry as a whole.

The PE ratio shows the price paid for a stock relative to earnings per share. It is used to value companies.

Experts are bullish on the sector for 2014/15. "The outlook is bright. An uptick in the domestic auto industry, besides a pick-up in replacement demand, will give a fillip to the auto ancillary industry," says Silky Jain, research analyst, Nirmal Bang Securities.

Prayesh Jain, Vice President, research, India Infoline, echoes Silky Jain. "The trend is expected to get stronger over the next one year as political stability emerges and global markets continue to recover from the financial crisis. Domestic revenues, too, will pick up from the second half of 2014/15."

"Factors to be considered while investing in auto ancillary companies are which segment they service and its growth prospects. A diversified customer base and wide geographical presence are preferable, too. One must also look at the management's record and the company's valuation," says Jain of India Infoline.

Yaresh Kothari, analyst, automobile, Angel Broking, says: "The economic cycle is an important factor. One should invest at the start of an upswing in the economy and prefer companies that have a technological edge, good brands with pricing power, strong relationships with original equipment manufacturers and a diversified business model."

Stocks You Can Bet on

Motherson Sumi Systems: It is among the largest auto ancillary companies in India. It is part of one of the most diversified groups in the Indian automotive industry with a growing global presence. Its market capitalisation was ₹22,361 crore on April 30, around ₹10,600 crore less than that of Bosch, the market leader.

Motherson makes wiring harnesses and mirrors for passenger cars. It also supplies plastic components and modules to the automotive industry.

The company reported a net profit of ₹353.76 crore for the quarter ended December 2013, up 260 per cent from ₹98.23 crore in the corresponding quarter a year ago. The stock had risen 38.89 per cent to ₹253 till April 30, 2014

V.K. Vijayakumar, investment strategist, Geojit BNP Paribas Financial Services, says Motherson, with a high PE of 35, is richly valued. However, he says that it can be bought even at such a high valuation if one's horizon is 24 months or more. Otherwise, one can buy on declines.

For A Smooth Drive

A few stocks that can give good returns

Amara Raja Batteries

CMP: ₹399

₹409.9
April, 30, 2014



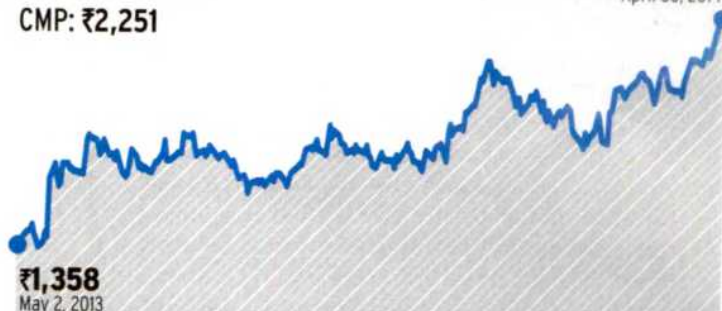
	2011/12	2012/13	% change
Net sales (₹ crore)	2,364.47	2,961.40	25.25
Net profit (₹ crore)	215.06	286.71	33.31

WHY BUY: Cost-effective and world-class technology from global leader Johnson Controls, strong brands, growth-hungry management and fast-expanding distribution network are the key positives

Wabco India

CMP: ₹2,251

₹2,209
April 30, 2014



	2011/12	2012/13	% change
Net sales (₹ crore)	1,004.97	917.36	-8.72
Net profit (₹ crore)	153.40	130.79	-14.74

WHY BUY: Profitability is likely to grow at over 20% a year. Analysts expect strong cash generation over the next two years due to moderate capital expenditure

CMP is current market price on May 13, graphs show share price movement; Data source: Ace Equity

It is doing well in the export market too, due to product quality and rupee fall. The stock can double in three years, says Vijaykumar.

"We expect better times for Motherson Sumi. It has already got orders to the tune of ₹4.3 billion. The stock can touch ₹324 in the next 12 months," says Arora of Prabhudas Lilladher. On May 2, it was at ₹263.95.

Amara Raja Batteries: India's second-largest maker of lead acid batteries for automotive and industrial seg-

Motherson Sumi Systems

CMP: ₹275.95



WHY BUY: It is doing well in the export market too, due to product quality and rupee fall. It has already got orders to the tune of €4.3 billion from EU countries

CMP is current market price on May 13, graphs show share price movement; Data source: Ace Equity

ments is a debt-free company. It had a net cash of ₹300 crore as on March 2013.

The stock has risen 57.63 per cent in the last one year. It was at ₹409.85 on April 30 this year, as against ₹260 on April 30 last year.

Profits have been rising at a decent pace. For the year ended March 2013, the company reported a net profit of ₹286.71 crore as against ₹215 crore in 2011/12 and ₹148 crore in 2010/11.

Jain of Nirmal Bang Securities is positive on the stock. "Amara Raja Batteries is best placed to ride the demand for automotive and industrial batteries. Factors like cost-effective and world-class technology from global leader Johnson Controls, strong brands, growth-hungry management and fast-expanding distribution network are the key positives. As most capital expenditure is expected to be over soon, we can expect an improvement in the cash flow. We continue to believe that the stock will command a premium to competitors given the company's strong growth prospects."

"The company has been registering strong operating performance over the last two years led by widening reach, quality offerings and rising capacity. Consequently, it has narrowed the valuation gap with Exide, the market leader. We expect it to sustain this performance. The stock can touch ₹440 in the next 12 months," says Kothari of Angel Broking. On May 2, it was at ₹410.85.

Wabco India: The company makes air brake actuation systems for commercial vehicles. It is one of the providers of electronic braking and stability, suspension and transmission control systems to the global commercial vehicle industry. Its markets include Australia, Malaysia, the UK, Singapore, South Asia, North America, Venezuela and West Asia.

The stock rose 7.74 per cent to ₹2,209 this year till April 30. Rohan Korde, analyst, automobiles, Anand Rath Institutional Research, says: "In the near term, the ongoing

Gabriel India Ltd

CMP: ₹33.85



WHY BUY: Gabriel is completely focused on innovation and increasing productivity, besides reducing costs, working capital and overheads. Debt reduction is also a focus area for the company

ing slowdown in demand for commercial vehicles and Wabco's heavy dependence on medium and heavy commercial vehicles (M&HCVs) will weigh on profits. However, we are optimistic about the long term as it will be a key beneficiary of the recovery in demand for commercial vehicles, with rising exports adding to the positives. Wabco Holdings, the parent, wants to make Wabco a research and development hub for global operations. The possibility of the government making anti-braking systems mandatory for all M&HCVs is an additional positive."

"Profitability is likely to grow at over 20 per cent a year. We expect good cash generation over the next two years due to moderate capital expenditure. The stock can touch ₹2,376 in the next few quarters," says Arora of Prabhudas Lilladher. On May 2, it was at ₹2,150.

Gabriel India: The company makes ride control products for passenger cars, utility vehicles, commercial vehicles and two-wheelers. Its markets include Europe, Africa, West Asia, Asia Pacific, China, Russia and Far East.

Since January, the stock has risen 31 per cent; it was at ₹32.60 on April 30. Its PE ratio is 10.32. Korde of Anand Rath says Gabriel is completely focused on innovation and productivity, besides reducing costs, working capital and overheads. It has also taken steps to improve the working capital cycle.

"Debt reduction is also a focus area for the company. Addition to the customer base, exports and steady replacement sales are future growth drivers. Despite lower vehicle demand, it has been able to sustain EBITDA (earnings before interest, tax, depreciation and amortisation) margins of over six per cent, which can be boosted further by operating leverage and higher contribution from more profitable segments such as exports and replacement. We believe it can give positive returns in the next few months," says Korde. ♦

Courtesy: Money Today

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LAST BUT NOT LEAST

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India's Global Farming

With an increasing number of Indians exploring international cuisines, the business of exotic vegetables is also growing.

By GOUTAM DAS

Farm fresh: First Agro founders K.N. Prasad and M. Nameet (in shorts) grow 38 varieties of tomatoes, rare peppers from the Caribbean and Peru, Japanese and Thai greens at their farm in Talakad, Karnataka



NILOTPAL BARUAH

On a sunny morning, peacocks, march in a procession across a narrow path lined with mulberry trees. Nearby, cows lazily graze, hens cackle, rabbits squeak and hop, swarming bees hum on a hive, ducks waddle. In this idyllic 40-acre farm in Patan Kala, Rajasthan, 90 km from Delhi, some of the animals are for sale. The ducks are not. "The ducks are my natural pest control," says Ayesha Grewal, owner of the Organic Acres farm. In what way? The ducks feed on mosquito pupae. They also feast on snails and other pests, protecting the greens and other vegetables the farm produces – 13 varieties of lettuce, including Boston, Bibb, Lola Rosa and Batavia, white turnips, golden beetroots, Caribbean peppers such as Scotch Bonnet, asparagus, artichokes, fennel, and Okahijiki, a Japanese land seaweed. In India, such produce is "exotic". Until recently, none of these would have

been cultivated here. High street restaurants imported everything – from salad leaves to European vegetables – to dazzle well-heeled customers who paid handsomely for their Arugula and Baby Radish Salad or the Heirloom Tomato (non-hybrid tomato whose seeds are typically passed down generations) Bruschetta. Domestic production of exotic vegetables, however, has been growing at a fast clip over the last three years. Farms catering to exotic greens have mushroomed too – in Manesar, Haryana (near Delhi), Pune, Bangalore, and Mysore. Their clientele are mostly restaurants in five-star hotels. Some of the produce is finding their way into retail shops as well.

Grewal, who started farming exotic greens in 2012, sells them through The Altitude Store, her own retail outlet in Delhi and Gurgaon. Exotics have been flying off her shelves. Her annual growth rate is between 150 and 200 per cent. According to the Indian Council of Agricultural Research, the market for exotic is growing at 15 to 20 per cent a year. But most growers, like Grewal, are clocking far higher growth numbers because of the smaller base.

The reason is not hard to see. The restaurant industry is booming because of the country's young population, their growing disposable incomes, and a trend towards eating out. There is greater awareness about international cuisine too. The food services market in India was estimated at \$48 billion in 2013 in a study by the National Restaurant Association of India and Technopak. In five years, that could be worth \$78 billion – that is nearly what the Indian IT industry currently exports.

While volumes are picking up, restaurant owners are looking to cut import bills and chefs are exploring ways to reduce the carbon footprint of the dishes they create. Air transport of food implies higher energy consumption resulting in carbon emissions.

"Besides carbon footprint, what is

Au naturel: Organic Acres grows 42 varieties of salad leaves, 13 of them lettuce, in Rajasthan

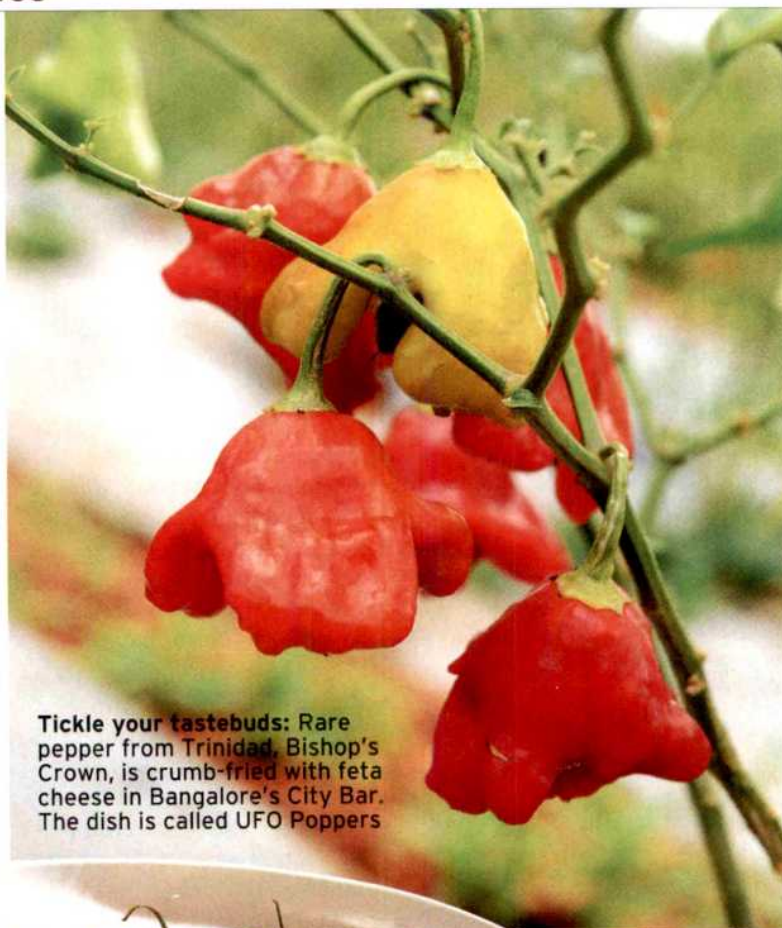


SHEKHAR GHOSH

becoming important is quality and traceability," says Anupam Banerjee, Executive Chef at The Ritz-Carlton hotel in Bangalore. Banerjee is obsessed with freshness and quality. "When you source domestically, you know it is not being mass produced, so the quality tends to be good too," he says. His team makes several trips to First Agro's 45-acre farm in Talakad, 130 km from Bangalore. Serpentine roads lead to the farm, past the river Kaveri, a rocky terrain and the breathtaking vineyard of Alpine Wineries. The farm is guarded by two Rottweilers, four German Shepherds, six Labs and a Boxer.

First Agro, which started producing exotic greens in 2011, has adopted 'codex standards' to ensure toxin- and pesticide-free produce. Its exotics include 38 varieties of tomatoes of all shapes and colours. A striking purple coloured 'Midnight Blue' tomato stands out against a cloudy horizon. A pepper from Trinidad called Bishop's Crown, Peruvian chilli called Aji Amarillo, Japanese greens such as Mizuna and Mitsuha, wild rocket lettuce and Thai greens are some of the farm's significant produce.

"Talakad can be the gourmet destination of Karnataka," says M. Nameet, First Agro's Co-founder. At dusk, as the lanky 37-year-old relaxes with a glass of wine, he often talks to Raghavendra Gowda, founder of Alpine Wineries, about his vision. The idea of agriculture struck Nameet, a former pilot, when he was flying in Canada. "I had a lot of free time. So, I started working with farmers and picked up knowledge on zero pesticide farming," he says. He teamed up with his brother M.V. Naveen and cousin K.N. Prasad to form the company. While Naveen



Tickle your tastebuds: Rare pepper from Trinidad, Bishop's Crown, is crumb-fried with feta cheese in Bangalore's City Bar. The dish is called UFO Poppers



has worked with IGATE and HP. Prasad was with Xerox and Wipro. The pilot-techie combo has worked well. The company supplies to nearly all the five-star restaurants in Bangalore and ships out daily orders worth around 2.5 tonne.

Similarly, there are other entrepreneurs in the exotic green business who had little exposure to the agriculture sector before. Grewal of Organic Acres has a finance background. Hamsa V., a techie, started Growing Greens in Bangalore in 2013. The company produces micro greens – plants that are in their nascent stages of growth and whose size varies between half an inch and two inches. The

company's mustard, sunflower, radish, pea shoots, red beet and carrots are used

by chefs to enhance the visual appeal of their dishes as also their flavour. Some hotels display it on their buffet counters.

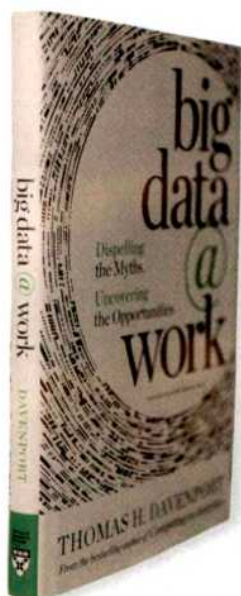
All this domestic production means substantial cost savings for restaurants. Exotic lettuce grown in India could be 30 per cent cheaper than the imported ones. Imported cherry tomatoes can cost ₹1,000 a kg whereas the domestically produced ones could be priced at ₹200. While it will always be difficult to replicate the thick and less acidic pulp produced by San Marzano tomatoes grown in Italy's volcanic soil, economics and the case for sustainable gastronomy is tilting the scale in favour of local sourcing. ♦

@Goutam20



Big Changes in the Offing

A comprehensive guide to Big Data – what it means, how it helps and what not to do with it



big data @ work
Dispelling the
Myths, Uncovering
the Opportunities

By Thomas H. Davenport
Harvard Business Review
Press

Pages: 228; Price: ₹1,250

It doesn't take much to figure out the hype around 'Big Data' – a cursory search on Amazon returns 8,594 results, a mountain of books on business intelligence to data mining to modeling and simulation. In his latest book, Thomas H. Davenport cuts through much of this clutter. He tells you at the outset that his book is different. The two decades to 2010 were about analytics in its different flavours, when tools were invented to support data-driven decision-making. The focus subsequently moved to statistical analysis for decisions. Big Data, three years old, is a different paradigm. It is about large, unstructured, fast-moving data. Managing it is often about combining a host of different skills. It requires a new breed of leadership, new company structures, and, above all, an understanding of how it could change most industries.

The book is a guide to all of these, as also about making effective decisions around Big Data. Its real value, however, does not lie in the author's sermons. It is valuable because Davenport shows, through a series of mini case studies, how Big Data not just predicts but prescribes effective pills for urgent ailments. One case study is on transport company UPS, which tracks data on 16.3 million packages daily. The data, derived from sensors in over 46,000 vehicles, has been used to optimise driver routes. This saved the company 8.4 million gallons of fuel in 2011 by cutting 85 million miles off its carriers' daily routes.

Similarly, trucking and logistics company Schneider National can tell when their drivers brake hard. This has implications on safety and often triggers a proactive discussion with the driver.

But then Big Data and its usage are not

about cost savings or better decisions alone. Organisations are also figuring out ways to monetise it and introduce new products or services. Two engaging stories here are that of US companies Verizon Wireless and LinkedIn.

Verizon Wireless can sell stadium owners and basketball teams information about people attending a game live – where they come from, their ages, their household incomes, among other details. LinkedIn has a 'People You May Know' (PYMK) feature, which recommends to a user other people he may want to connect with. The feature is a work of Big Data as it assimilates information from common schools some users attended, common workplaces, connections and geographies. Davenport concludes that because of this one feature, LinkedIn's growth trajectory has shifted upwards – compared to other prompts LinkedIn sent users to generate stickiness. PYMK messages achieved 30 per cent more click-throughs.

Just as there is a lot to learn from the success of online start-up companies making effective use of Big Data, there are lessons on what not to do as well. The book highlights a few instances. Many start-ups are less than transparent about what data they have about the customer; many collect data for data's sake without knowing if they can ever make good use of it. The risk, the author points out, could be in terms of regulatory and customer backlash.

Every chapter ends with an "action plan for managers" – more questioning than prescriptive. Like all good management books, this one is fashioned to make you think. It is not a book you would want to finish in a hurry because every chapter requires deep reflection. ♦

GOUTAM DAS

Managing Big Data requires a new breed of leadership, new company structures, and, above all, an understanding of how it could change most industries

Iceotope Dunking Server Blades in Liquid to Keep Them Cool

Liquids and electronics don't seem to mix – ask all those who have spilt coffee on their keyboards. But that's because coffee isn't a liquid with the right properties. Iceotope, a UK-based company, has created a system that immerses server blades – literally dunks them – in a special fluid. Not only does this make the cooling system silent, without the whirr of the fan or the hum of the AC, the company says it reduces the power load of energy-hogging data centres by half.

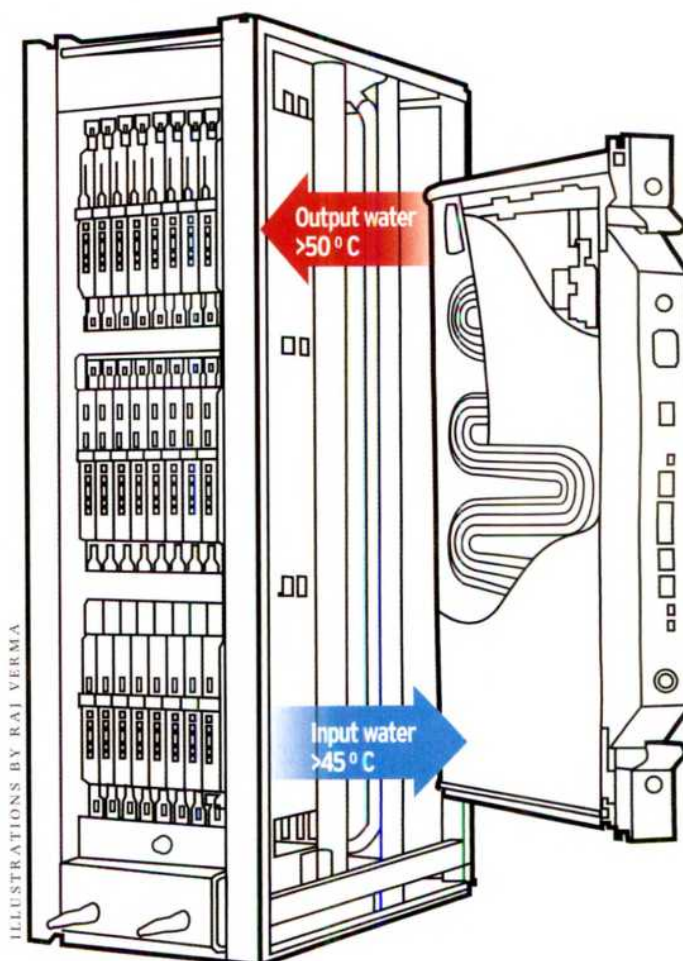


1 BACKSTORY

Peter Hopton was an electronics engineer at the University of Sheffield who, in the mid-2000s, studied the history of liquid cooling in supercomputers. The way those early systems – like the Cray 2 which was nicknamed “Bubbles” – worked, was by pumping a coolant. The liquid used was also less environmentally-friendly. But Hopton thought he could go back to liquid cooling and do one better.

2 HOW IT WORKS

The key component of the Iceotope system is its convective cell, which, without needing a primary pump, transfers heat from the immersed servers to the special fluid and then to water. The water circulates inside a system of internal plumbing and comes out several degrees hotter. This hot water, in turn, can be used to supply heat to buildings where the servers are housed. The engineers tested the cell with 61 different liquids before settling on the 3M Novec 1230 fluid, which is otherwise used in fire extinguishing equipment. The company is now working with another fluid, the Galden, this time from one of its key investors, Solvay, a Belgian chemicals company.



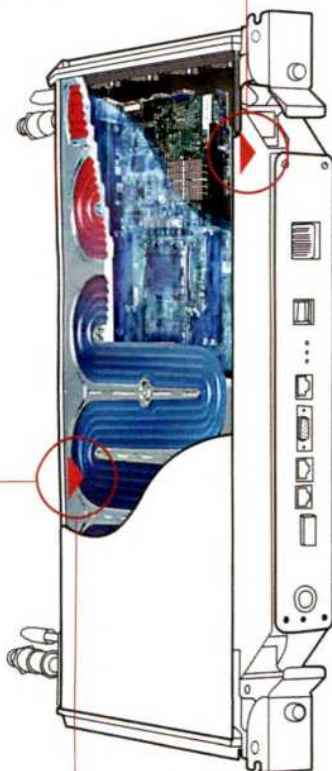
Iceotope's innovation came from studying cooling systems in the early days of computing when liquid coolants were used.



Video demonstration of Iceotope's system at www.businesstoday.in/iceotope-demo

IMMERSED SERVERS:

Computing produces heat on the motherboard, which is immersed in an inert fluid. Natural convection transfers this to a heat plate which is ribbed to maximise the surface area.



AN ALUMINIUM BLOCK:

Separates the water from the electronics. Leak-proof valves allow water through, gravity circulates it and it collects heat from the plate. The server blade fits snugly into a cabinet.

HEAT FOR BUILDINGS:

Water circulates through the entire cabinet like an elaborate supply system. The outgoing water can even be used for heating the building where the servers are housed.



"If you don't know your market, it can end up driving the business in the wrong direction"

PETER HOPTON
Founder and CEO/Iceotope

3 COMPETITORS

Green Revolution uses mineral oil as the immersion fluid, which is considerably cheaper than the 3M Novec fluid, but Hopton says the costs even out over an extended period and the Iceotope system is safer because the fluid used is non-flammable. But Iceotope has Hong-Kong based Allied Control and US-based LiquidCool in the fray which also use dielectric fluids.

4 LEARNING CURVE

Hopton's big lesson: Realising how important it is to know one's market. In 2009, Iceotope tried to gain traction in the financial services market and even secured a case study with Credit Suisse. But it soon realised it was the wrong market to pursue: buyers were conservative and used to dealing with big brands, not a brash start-up. "If you don't know your market, it can end up driving the business in the wrong direction," says Hopton. Lesson No.2: Study the IP landscape. Spend three times as much time studying other people's patents as you do writing your own. The common mistake is to go to the patent office the very next day after inventing something, pay money and have the patent pending. Hopton says that is probably the worst way to do it.

5 INDIA CONNECT

India is one country on his list, says Hopton, acknowledging there are several data centres here, and it is a high growth market. Schneider Electric, one of its major investors, and already present in India, could become Iceotope's channel to market.

VIRAT MARKANDEYA

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Description: Candidates with 15+ yrs of experienced from real estate background preferred.



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Director - Security Operations
Location: Mumbai
Job ID: 15277835
Description: In-depth hands-on experience in handling 24*7 operations in Global MSP/ISP/IDC/NOC/SOC outsourcing and shared services environment.



Hector & Streak Consulting Pvt. Ltd.
Head Marketing & Sales
Location: Delhi
Job ID: 15287746
Description: Plan, co-ordinate and implement overall marketing strategy and budget for existing and new outlets of company, to increase market share and sales volumes, realize targeted margins, thus help grow the retail operations business.



Capgemini Business Services India Limited
Senior Leadership
Location: Chennai
Job ID: 15288847
Description: Responsible for Service Delivery for a huge team.



Vitasta Consulting Private Limited
National Sales Manager
Location: Mumbai
Job ID: 15301806
Description: At least 15-18 years of experience in Pharmaceutical Sales Management with adequate exposure across therapies like Gynecology, Ortho, Anti-infective, Nutrition, GP / CP segments etc.



CRY-Child Rights and You
Senior Manager - Grants - Resource Generation HO
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Job ID: 15222709
Description: Responsible for raising funds from foundations and trusts, both Indian and foreign.



dEEVOiR Consulting Services Private Limited
Senior Manager - P2P
Location: Kolkata
Job ID: 15167662
Description: Minimum of 8 to 12 years of experience in accounting functions, R2R and end to end Procure to Pay Cycle.



Abanel Management Consulting Pvt. Ltd.
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Job ID: 15166094
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Technical Lead

Location: Pune**Jobs ID:** 15282304**Description:** Ability to suggest solutions is a technical Go-To person for the entire Java development team.**Robert Bosch Engineering and Business Solutions Limited**

Linux Device Driver

Location: Bengaluru / Bangalore**Job ID:** 15293716**Description:** Good programming and debugging skills (C/C++) for multithreaded software development.**Polaris Software Lab Limited**

Abinitio Developer

Location: Mumbai, Pune**Job ID:** 15270757**Description:** Candidate must have knowledge about Abinitio, Oracle / PL SQL and Unix.**Fidelity Business services**

Software Engineer/ Sr. Software Engineer

Location: Bengaluru / Bangalore**Job ID:** 15289652**Description:** Hands-on development in Core Java, J2EE, Spring framework, JSP, Servlet, JQuery, XML and Java Script.**Thomson Reuters**

Associate Software Engineer

Location: Hyderabad / Secunderabad**Job ID:** 15237360**Description:** 1.5 - 2 years of full-time programming experience.

Cognizant

Cognizant Technology Solutions India Pvt Ltd

DW Testing Professionals

Location: Coimbatore**Job ID:** 15297292**Description:** Looking for DW testing Professionals with 3-15 yrs experience.To apply for above jobs logon to www.monster.com >> Type the Job ID in the "Search Jobs" box >> And click the "Go" button.Available on the
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Corporate Communication - Internal
Location: Pune
Jobs ID: 15285741
Description: Looking for candidate with a sound background of Corporate Communication.



Gati Kintetsu Express Private Limited
Executive Sales & Marketing
Location: Kanpur, Lucknow
Jobs ID: 15255269
Description: To ensure Business Retention by maintaining good relationship with existing Customer.



Symphony Teleca Corporation India Private Limited
Sr. Business Development Executive
Location: Pune
Job ID: 12516676
Description: Must have Lead / Demand Generation experience with US Market with leading IT Services Company at least for 1.6-2yrs.



Sumedha Consultancy Services Private Limited
Marketing Executive / Sales Executive
Location: Hyderabad / Secunderabad
Job ID: 12561221
Description: Ideal candidate should have good communication skills.



KRM Global
Sales Profile (Material Handling/ Industrial Storage)
Location: Chennai, Baroda
Job ID: 15289011
Description: He should have experience into dealer management and should be willing to travel.



MakeMyTrip.com
Regional Marketing Manager (North)
Location: Gurgaon
Job ID: 15291146
Description: Keen understanding of the competitive environment and regional players.



Leapahead Global Manpower Solutions
Sr. Marketing Executive
Location: Delhi, Sonapat / Sonapat
Job ID: 15242359
Description: Minimum 2-3 years of relevant work experience in Consumer product marketing for FMCG.



Grassroots BPO Private Limited
Store Sales
Location: Bengaluru / Bangalore
Job ID: 15294150
Description: Min 1yr experience in Store Sales/Direct sales.

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Sand Martin Consultants
'Manager Finance & Accounts'
Location: Noida
Job ID: 14447077
Description: The candidate will be responsible to take care of all Finance & Accounts functions of the Company, its associate companies as well as branches.



Golden Opportunities Private Limited
Manager Cash Management
Location: Chennai
Job ID: 15263254
Description: Person should have sound knowledge of clearing, RTGS, NEFT, NECS, ECS systems.



CareerNet Technologies Private Limited
Finance Controller
Location: Bengaluru / Bangalore
Job ID: 15166555
Description: Should have experience as a finance controller/ head in managing the finance function for the last 2 years.



MSCI Services Private Limited
Accountant
Location: Mumbai
Job ID: 15292871
Description: Assist Legal Entity Controller on day to day finance operations, Handle full sets of account etc.



Zeeboombaa Manpower
Senior Accountant
Location: Chennai
Job ID: 15275573
Description: Working Knowledge in TDS, Service Tax, Sales Tax, VAT, ESI, PF is added advantage.



Intellectual Capital Hr Consulting Private Limited
Consultant (Internal Audit)
Location: Mumbai
Job ID: 15267998
Description: Responsible for executing client related engagements in the areas of governance, risk & compliance (GRC), internal audits, process reviews, etc.



WNS Global Services Private Limited
Manager - Internal Audit - Risk Management and Audit
Location: Pune
Job ID: 15220634
Description: Design scope of audit assignments covering internal controls & policy guidelines for domestic and international business units.

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Ashok Kapur
Chairman, Krishna Group

Charting a New Flight

ASHOK KAPUR is flying high. The Promoter-Chairman of Krishna Group, a component manufacturer-supplier to top automobile manufacturers, including Maruti, Honda, Ford, Fiat and GM, has tied up with Dubai-based airline flydubai as its exclusive ticketing partner in India. Flydubai has announced 10 new flights connecting Dubai with Delhi, Kochi and Thiruvananthapuram.

"We already had a presence in the travel business. In the new division (SKH Aviation), we are starting with ticketing and visa services for flydubai. We will be the general sales agent for flydubai in India. The next step will be cargo and our ultimate aim is to launch a domestic airline under a joint venture with flydubai," says Kapur. The airline will expand its services to Ahmedabad, Lucknow, Mumbai and Chennai in future, he adds.

Launched in 2009, flydubai has a fleet of 36 aircraft and has placed delivery orders of another 100 passenger jets by 2023. Kapur, who chairs an auto component business of some ₹3,500 crore in revenues, says he sees strong potential in the aviation business with flydubai, given the growing business relationship between UAE and India.

AJAY MODI



Yuji Nakata
MD, Konica Minolta India



Fine Print

Nearly four years after entering India, Japanese technology giant Konica Minolta has captured 51 per cent share of the production printing market. Says **YUJI NAKATA**, 48, the new Managing Director of Konica Minolta India: "When we started India operations, the size of the production printing market was some 400 units. By last year, it had risen to nearly 1,000 units. My vision is to not only take away market share from others but also expand the market." The ₹300-crore Konica Minolta India works with four partners who sell and service products on its behalf. "Almost 40 per cent of photo albums are now printed on our engines," Nakata adds.

MANU KAUSHIK

Konica Minolta betting big on India's printing market.
Read more at business today.in/konica-minolta

A. PRABHAKAR RAO



Hail Hyderabad

K.T. RAMA RAO has ambitious plans for Hyderabad. "I want it to be the first city in the country to be fully Wi-Fi enabled. It is an ambitious goal but I want to ensure it happens ASAP. If San Francisco and Rio can do it, why can't we?" he says. Son of Telangana Chief Minister K. Chandrasekhara Rao, and IT and Panchayat Raj minister in his cabinet, Rama Rao says he also wants to leverage 4G technology to try out e-learning and e-health across the newly created state. "Why can't a primary health centre in rural Telangana get the help of super specialists in Hyderabad," he asks.

A postgraduate in Biotechnology from the University of Pune and an MBA in Marketing and E-commerce from Baruch College - The City University of New York, Rao, 38, worked in the US for some years before returning to India and politics. As minister, he is currently working on setting up an

K.T. Rama Rao
IT & Panchayat Raj minister,
Telangana

incubation facility with a seed fund, which will spur product development and enable budding entrepreneurs to try out new ideas.

E. KUMAR SHARMA



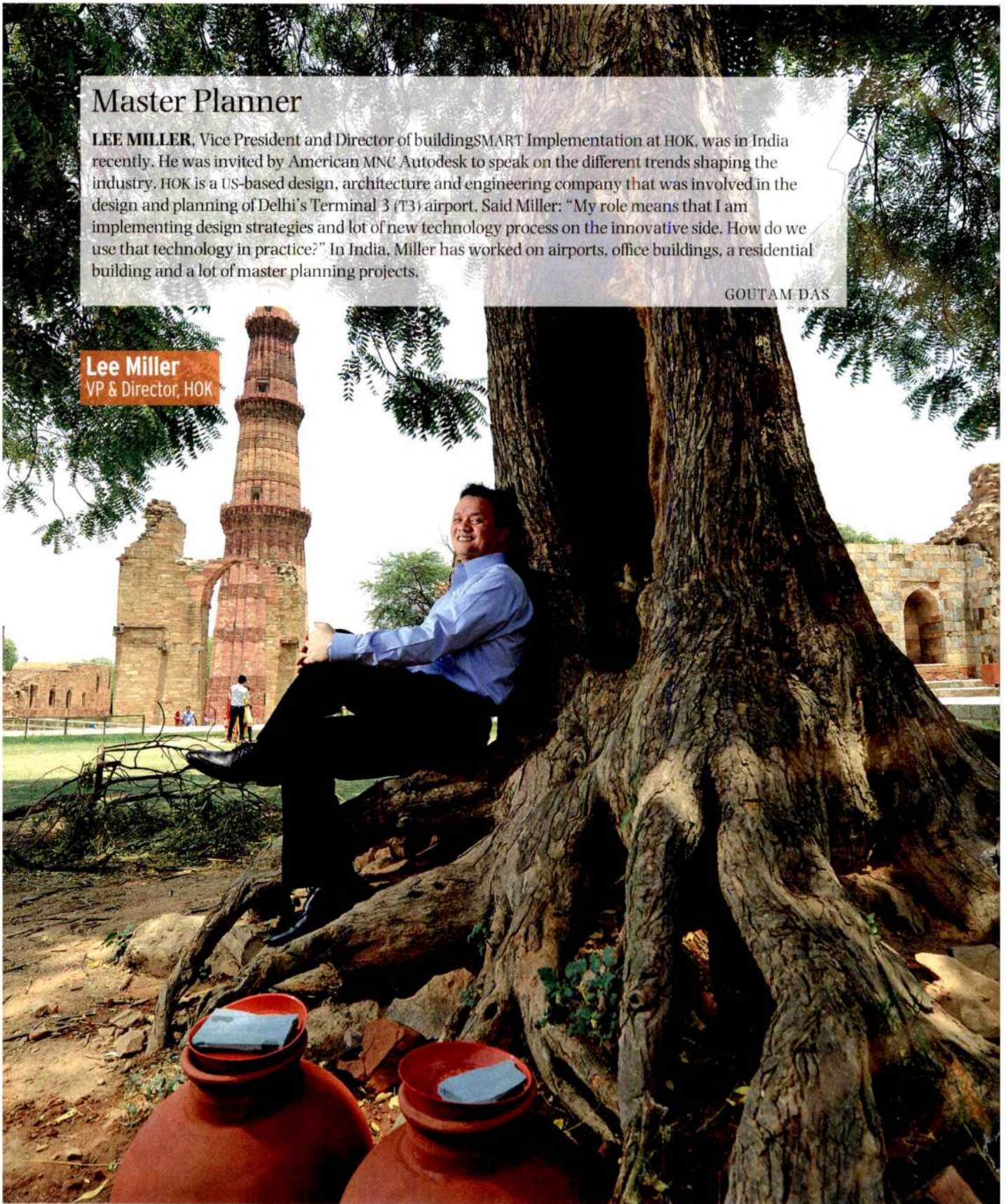
Video interview with K.T. Rama Rao at
www.business today.in/telangana-ramarao

Master Planner

LEE MILLER, Vice President and Director of buildingsSMART Implementation at HOK, was in India recently. He was invited by American MNC Autodesk to speak on the different trends shaping the industry. HOK is a US-based design, architecture and engineering company that was involved in the design and planning of Delhi's Terminal 3 (T3) airport. Said Miller: "My role means that I am implementing design strategies and lot of new technology process on the innovative side. How do we use that technology in practice?" In India, Miller has worked on airports, office buildings, a residential building and a lot of master planning projects.

GOUTAM DAS

Lee Miller
VP & Director, HOK



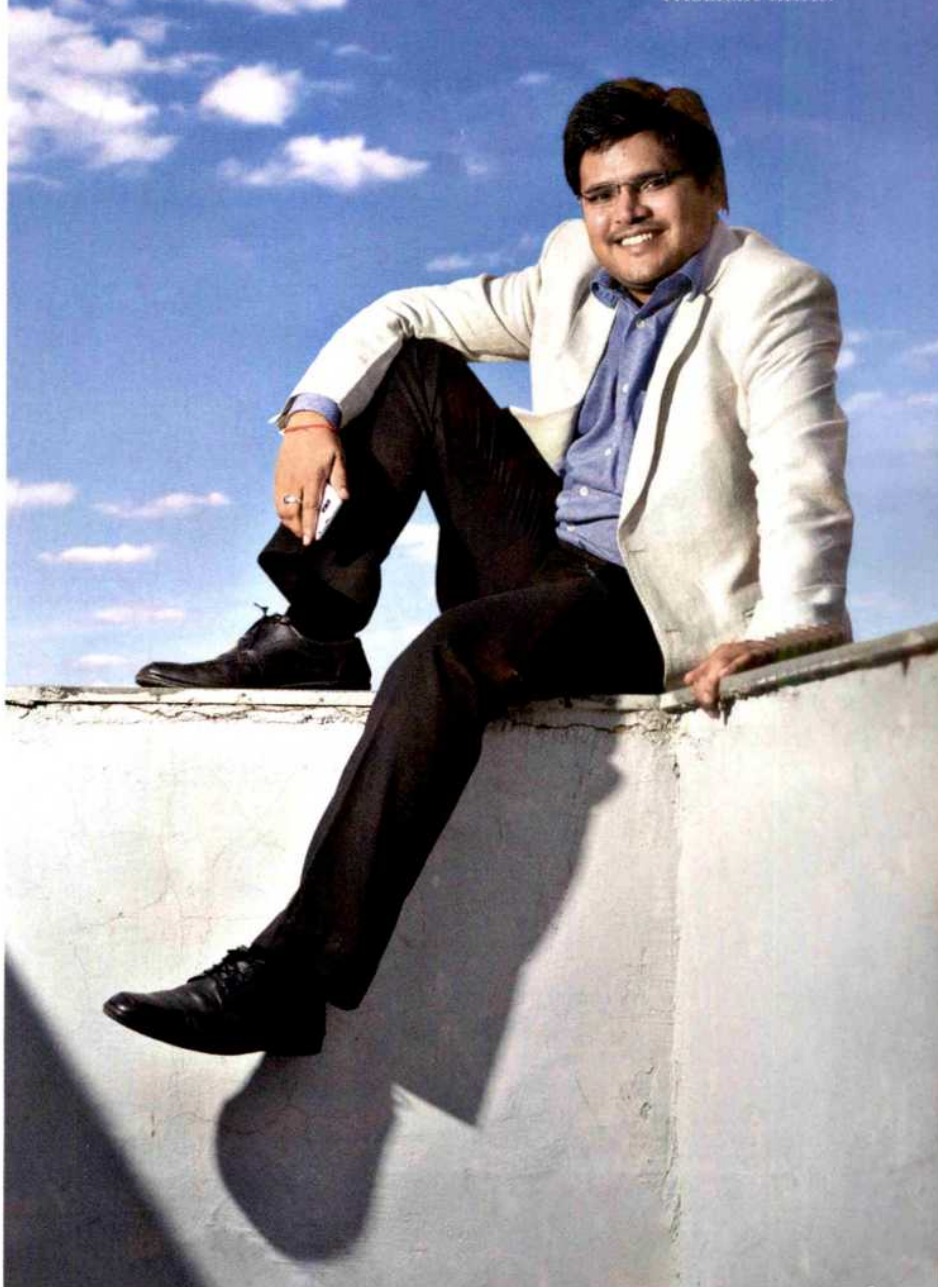
SHEKHAR GHOSH/www.indiatodayimages.com

Rakesh Deshmukh
Co-founder/CEO, MoFirst Solutions

Ringing in the Regional

"We see language as a deep challenge for technology adoption in India," says **RAKESH DESHMUKH**, Co-founder and CEO at MoFirst Solutions. The Mumbai-based mobile technology company has launched smartphones under the brand Firsttouch for rural and semi-urban users in Gujarat who want to switch from feature phones to smartphones but want features like 'simple calling' intact. The keypad of the phone is in Gujarati and, among other features, it offers a language-swipe solution which lets users translate to English from Gujarati and vice-versa, merely with a swipe. Around 3,000 handsets have already been launched through 270 stores in Saurashtra. The company will launch phones in Hindi and Marathi soon. Deshmukh, 31, who "got into entrepreneurship to impact people's lives", draws inspiration from innovative-driven Apple.

TASLIMA KHAN





VINITA SINGHANIA

Vice Chairman & Managing Director,
 JK Lakshmi Cement

My first role model
 My eldest brother-in-law
 Hari Shankar Singhania. He
 was the most powerful
 uniting factor in the
 Singhania family. He taught
 me to take up challenges

My first job
 Destiny pushed me into
 business. After my husband
 Shripati Singhania's

untimely demise, I joined
 Straw Products Ltd, a JK
 Group company, as an
 executive in early 1989

My first boss
 Hari Shankar Singhania

My first promotion
 As a reward for a few bold
 decisions I had taken since
 my induction into the

company, I was
 redesignated a
 Whole Time Director

My first disappointment
 I accept things as they
 happen so that leaves very
 little room for
 disappointments

Photo by Shekhar Ghosh
 As told to Ajay Modi

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IGNORING



*Creative Visualization. *vs. silica toothpaste without anti germ actives. #vs. non fluoridated toothpaste.

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Real Estate Awards 2012
The Best Office Space
of the Year

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